

BETWEEN FECKLESS AND RECKLESS: U.S. POLICY OPTIONS TO PREVENT A NUCLEAR IRAN

JOINT HEARING BEFORE THE SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA AND THE SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE OF THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS SECOND SESSION

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THURSDAY, APRIL 17, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST
AND SOUTH ASIA, AND
SUBCOMMITTEE ON TERRORISM,
NONPROLIFERATION, AND TRADE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:02 p.m. in room 2172, Rayburn House Office Building, Hon. Gary L. Ackerman (chairman of the Subcommittee on the Middle East and South Asia) presiding.

Mr. ACKERMAN. The subcommittee will come to order.

Within the next 2 years, there is a real possibility that Iran will have the means to make an atomic bomb. Let me say that again: Within the next 2 years, there is a real possibility that Iran will have the means to make an atomic bomb.

The reason for this awful truth is that they wanted it more than we wanted to stop them. They have risked war; we decided to fight the wrong country. They have risked sanctions; we have failed to get the international community to embargo so much as a box of cereal. They have committed the resources needed to create an extensive, hidden and hardened nuclear infrastructure; we can't even get the Senate to debate measures to toughen our own sanctions laws.

They are serious; we are not. They will probably have the ability to make an atomic bomb within the next 2 years, and then we will have to deal with it.

The dynamic at work is no mystery. It is a simple matter of cost-benefit analysis. For the Iranians, the benefits of having the ability to make nuclear weapons are immense. They can deter the United States. They can threaten their neighbors in the region and even states in Europe. They can contend for hegemony in the Middle East behind a nuclear shield. They can continue their sponsorship of terrorism from a position of unassailable strength. They can intimidate their neighbors in OPEC and toy with the world's economy. These benefits are huge.

On the costs side, they have to endure mild and mostly painless sanctions. Worse than that, they must absorb endless self-righteous

lectures from European diplomats, and they have to be patient for just a little while longer. That is it.

The benefits are gigantic, and they pay a price that is puny. So why on Earth would we expect them to give up on their nuclear ambitions? Looking out from Tehran, they must think that we are childlike or stupid.

Here is a simple question: If the world's businesses were forced to choose between access to the United States economy and doing business with Iran, how many would choose Iran? My guess is somewhere between zero and none.

Another simple question: Why have we not forced that choice on the world's businesses? Maybe our witnesses from the administration can answer that one.

The President has been aware of the threat of Iranian nuclear proliferation from day one of his administration. He has known and done next to nothing. Future generations of Americans will neither understand nor forgive this appalling foreign policy failure. To guess wrong is always the risk of making choices; to know the right choices and do nothing is just incompetent.

Using the Iran Sanctions Act, the administration has put sanctions on no one, nowhere, no time. That means the cost of developing the bomb will soon yield unthinkable choices.

In the case of Iraq, a neighboring oil-producing nation that had a history of state-sponsored terror and nothing to do with the attacks of 9/11, the administration was willing to use sanctions, to work with the international community to strengthen and sustain those sanctions, and ultimately to use force to achieve our objectives.

To this day, the administration maintains its Iraq policy has been worth the lives of over 4,000 American heroes, the dismemberment of 30,000 soldiers' bodies, and the miseration of tens of thousands of mourning spouses, mothers, fathers, children, and at a cost of more than a half-trillion dollars.

There has been only one beneficiary of this ongoing and tragic disaster. Who else? Iran. But as for as Iran's nuclear aspirations, in truth, we have scarcely even begun to fight.

I don't want to completely dismiss the work done by the Department of State and Treasury to convince the world's banks to stop doing business in Iran. This work was well done and much appreciated here in Congress. Nevertheless, this effort has to be considered in the context of the overall efforts to stop Iran's nuclear program, and that effort is failing.

When Switzerland's Foreign Minister feels free to stop by Tehran to throw flowers at the feet of Iran's lunatic President and to jostle for position in the photos commemorating a \$15 billion oil deal between a Swiss company and Iran, I think we have to admit our policy of constraining and sanctioning Iran doesn't appear to be on the fast track to success.

For that matter, the Bush administration has not only utterly failed to use United States sanction laws against foreign companies investing in Iran's oil sector, the administration has actively worked to prevent Congress from making those laws more stringent and more compulsory. Presumably, their logic is that the slow-motion, multilateral, diplomatic track that in 4½ years has pro-

duced absolutely no change in Iranian behavior is just about to make a huge breakthrough. I, for one, can't wait to be surprised by a massive but completely unprecedented success in this policy.

But the fact is, the multilateral sanctioning effort is moving at a glacial pace. Iran's enrichment program is in the homestretch and sprinting. We are moving in inches, and they are advancing in yards. The mullahs are not only ahead in this race, they are expanding their lead.

So, once again, we come back to the reality that, within the next 2 years, there is a real possibility that Iran will have the means to make an atomic bomb. So the only question that matters is, What are we going to do between now and then to stop Iran?

With so little time, our thinking about this problem needs to change. Options that years ago would have seemed reckless—discussing embargoes and blacklists and highlighting the emphasizing of our military capabilities—have now become essential leverage if we are going to be successful in peacefully getting Iran to back down.

Likewise, continuing doggedly and patiently on the diplomatic path alone, which years ago may have seemed wise, today looks like a roadmap to disaster. With Iran's proliferation on the horizon, what is feckless is now in fact reckless. Toothless diplomacy in this case makes military intervention by ourselves or by others more, rather than less, likely.

I am not calling for another war. I want to prevent one. But we may have to go right up to the very brink if we are going to be considered serious and credible when we call an Iranian nuclear weapon unacceptable.

President Bush has used this word, "unacceptable." Based on policy to date, I am not really sure he knows what it means.

Shakespeare's three witches warned Macbeth that fair is foul and foul is fair. Our options for dealing with Iran may be seen in much the same way. What has seemed to be wise may be foolish, and what has seemed to be foolish may be wise. Let us hope that we can parse the witches' warning better than Macbeth and, in the meantime, Iran's nuclear caldron continues to boil and to bubble.

Now, I would like to ask for my colleague and partner, Ranking Member Pence, for his opening remarks.

[The prepared statement of Mr. Ackerman follows:]

PREPARED STATEMENT OF THE HONORABLE GARY L. ACKERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

Within the next two years, there is a real possibility that Iran will have the means to make an atomic bomb. Let me say that again. Within the next two years, there is a real possibility that Iran will have the means to make an atomic bomb.

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The dynamic at work is no mystery. It is a simple matter of cost / benefit analysis. For the Iranians, the benefits of having the ability to make nuclear weapons are immense. They can deter the United States. They can threaten their neighbors in

the region, and even states in Europe. They can contend for hegemony in the Middle East behind a nuclear shield. They can continue their sponsorship of terrorism from a position of unassailable strength. They can intimidate their neighbors in OPEC and toy with the world's economy. These benefits are huge.

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So why on earth would we expect them to give up on their nuclear ambitions? Looking out from Tehran, they must think we are rather childlike, or stupid.

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So the only question that matters is, what are we going to do between now and then to stop Iran? With so little time, our thinking about this problem needs to change. Options that years ago would have seemed reckless—discussing embargoes and blacklists, and highlighting and emphasizing of our military capabilities—have now become essential leverage if we are going to be successful in peacefully getting Iran to back down. Likewise, continuing doggedly and patiently on the diplomatic path alone, which years ago may have seemed wise, today looks like a roadmap to disaster. With Iranian proliferation on the horizon, what is feckless is in fact reckless. Toothless diplomacy in this case makes military intervention by ourselves, or by others, more, rather than less likely.

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Shakespeare’s three witches warned Macbeth that “Fair is foul, and foul is fair.” Our options for dealing with Iran may be seen in much the same way. What has seemed wise may be foolish, and what has seemed foolish may be wise. Let us hope that we can parse the witches’ warning better than Macbeth. And in the mean time, Iran’s nuclear cauldron continues to boil and bubble.

Mr. PENCE. Thank you, Mr. Chairman. And thank you for calling this hearing and bringing together a panel of such distinction.

And I welcome our witnesses.

Mr. Chairman, your hearing titles are often memorable, although not always completely to my liking. I, frankly, was wondering when I saw the theme, “Between Feckless and Reckless,” whether we were referring to what remains of the Carter administration as opposed to the present administration. I, frankly, don’t think the theme accurately reflects this administration’s efforts, reflected in part by the hard work of the two witnesses here today.

In all seriousness, no one in Congress that I am aware of wants a nuclear Iran, and our problems with Iran are as enduring as they are troubling. For more than 28 years now, five straight American Presidents have been vexed by this outlaw regime. In fact, tomorrow marks the 25th anniversary of Hezbollah’s bombing of our Embassy in Beirut, a milestone Ambassador Feltman knows well, having just concluded a tour there.

Hezbollah, we now know and our witnesses reiterate, is financed by the Iranian Revolutionary Guard Quds Force. The first Beirut bombing would mark only the beginning of Iran’s murderous attempts to harm the United States and our interests in the region.

Mr. Chairman, this is a dangerous and destabilizing country, as you have eloquently and powerfully stated. Just in this last week, Iran has announced that it is now operating 6,000 centrifuges in its nuclear facilities, and President Ahmadinejad has bizarrely and offensively questioned the reality of the September 11th attacks three times in the last week.

Iran’s nuclear intentions cannot be read in anything but the most ominous light. Now the subject of four U.N. Security Council resolutions, as recently as 3 March, 2008, this is a state more than willing to harm itself economically in order to advance a nuclear program that cannot be viewed as peaceful.

To that end, I laud the efforts of our witnesses. I laud them for their efforts to squeeze the worldwide assets of the Iranian regime, and I am pleased with their relative success in that area. I believe they have left no stone unturned.

The approach of sanctions and international pressure is nothing new. The Congressional Research Service scholar Kenneth Katzman speaks of “the wide range of U.S. sanctions in place since November 1979’s seizure of U.S. hostages in Iran.”

When it comes to Israel, Iran’s intentions could not be clearer. Its President has uttered what he views as a prophecy heralding the destruction of Israel so many times that it is no longer even viewed as newsworthy. Just 2 days ago, Mohammad Reza Ashtiani, Iran’s deputy commander in chief of the army, called for “elimi-

nating” the Jewish state in the event of hostilities, according to Reuters News Service.

If a wise threat assessment considers intentions and capabilities, Iran’s intentions toward Israel are hiding in plain sight. We must, as a Congress and as a Nation, do everything in our power to deny Iran the capability of carrying out its malevolent intent.

For my part, Mr. Chairman, as you are aware, I am working on a bipartisan basis with members of this committee to explore ways that the American people might be heard on the world stage regarding the depth of our commitment to the security of Israel and the depth of our opposition to a nuclear Iran.

Threatening Israel and pursuing WMD are far from the extent of Iranian mischief. Iranian trouble is sown far and wide. Funding Hamas is another favorite pastime of the Iranians.

On that note, let me add, former President Carter’s meeting perhaps tomorrow in Damascus with the Iranian-supported Hamas terrorists is troubling, unhelpful and outrageous. It is not in keeping with the dignity of the high office he has held. I am very pleased that so many of my Democrat colleagues on this committee have joined me and others in denouncing this unwise gambit by what appears to be an American self-appointed diplomat, possibly in violation of the Logan Act.

In this vein, I believe it is foolish, in a related matter, to pursue unconditional discussions with Iran on any basis. I am reminded that last week, in testimony before the full committee, Ambassador Ryan Crocker made it clear, in questions that I posed, that the limited discussions with Iran that have taken place in Baghdad on the subject of Iraq have been utterly fruitless.

We all know Iran’s role in fomenting, destabilizing, and destructive Shiite groups in Iraq. Mr. Glaser’s testimony makes it clear that the Iranian Revolutionary Guard is actually funding the Taliban in Afghanistan as well. It seems like everywhere we turn, Iranian mischief and malevolence is not far behind. Terms like “rogue regime,” “axis of evil,” although sometimes demeaned, were invented for the state of Iran.

With that, again, I want to commend the chairman of this subcommittee for once again proving that this subcommittee is committed to talking about the next subject that the American people and this Congress will face. And I appreciate the chairman’s leadership and the presence of our witnesses.

Mr. ACKERMAN. Thank you.

It is now time to hear from our co-host of this hearing, which we do jointly with the Subcommittee on Terrorism, Nonproliferation, and Trade, and call on my full partner in chairing this hearing, Chairman Brad Sherman.

Mr. SHERMAN. Thank you. I thank the gentleman from New York for joining with us in holding these hearings.

These hearings will expose an administration that is hiding behind a supposed Hobson’s choice: That we either bomb Iran or we do nothing but scream at them and that we occasionally supplement that screaming with truly feckless and token sanctions.

The administration has chosen to ignore the truly important economic and diplomatic tools at our disposal. The question is, Why? This administration is famous throughout the world for what

seems to be vigilance or even over-vigilance for protecting America from terrorist attacks.

What is misunderstood is that this administration has been captured by extremists: Extremists in defense of corporate liberty, extremists who would not ever allow any corporation to have its right to make a profit impaired in the slightest, merely in the interest of defending the United States and our national security.

I know that seems to be a strong statement, but with me here is Don MacDonald, our subcommittee staff director, and during the break he would like to collect from any of the smart people in this room any example of where the Bush administration has voluntarily acted to inconvenience a multinational corporation in order to achieve a national security objective.

We are also hamstrung by the bureaucratic imperatives and arrogance of our foreign policy establishment. We can't bargain because we can't prioritize, we can't link, we can't give anything to get anything. We have never gone to the Chinese and said that our actions toward their currency manipulation will be affected by what they do with regard to Iran. And, we have never gone to Russia and said that, even as to issues like Abkhazia and Trans-Dniester, Moldova, issues so unimportant to American security that no one in this room knows what I am talking about with the exception of our witnesses and a few of my colleagues, even as to issues like that, we are unwilling to tell Russia that our policies will be affected by their policies toward Iran.

And so we send these two fine public servants and others to do their best. And they have done the best that can be done if you send them out there with no bargaining power. Send them to Moscow, send them to Beijing, ask them to beg but don't allow them to bargain.

Now, another part of this is the NIE, the summary of which was designed to be misread. The big headline out of that summary is that Iran has abandoned its weaponization program. Only in a footnote do you learn the weaponization program is just the engineering as to how to create the bomb. They can do that in 1 or 2 years. The report itself makes it clear: Iran is in an all-out effort to do the hard part of making a nuclear weapon—creating the fissile material with 3,000 and more centrifuges.

Some are even fooled by the Iranian claim that they just want to generate electricity. Iran in 2006 flared approximately 13 billion cubic meters of natural gas. That is the equivalent of what you would need to power 9,618 megawatts of natural gas electric generation capacity—more than 10 times Bushehr, far more or at least somewhat more than all the electricity Iran claims it plans to generate from 10 nuclear electric plants. If natural gas is free, then power can be generated cheaply, and in a manner that is safe for the local environment.

So what we have is an Iran on target to develop nuclear weapons. What does this mean for us? It means that other states in the region will develop nuclear weapons and the nonproliferation regime is dead. It means terrorism with impunity. It means that we go eyeball to eyeball with a hostile nuclear force and a hostile nuclear nation. That is a Cuban missile crisis every time there is an

incident in the Persian Gulf—not a Cuban missile crisis with Khrushchhev, but with someone considerably less sane.

And if this regime feels it is about to be overthrown, they can send a nuclear weapon to Tel-Aviv in an effort to regain popularity, or send one to us, smuggle it inside a bail of marijuana, feeling that if they are going to go out they might as well go out with a bang.

When it comes to getting U.N. sanctions, sanctions that could be immediately effective in preventing refined oil products from going into Iran—which, as many of you know, Iran has to import nearly half of its refined energy since it lacks refinery capacity—in order to get those U.N. sanctions, we need Russia and we need China.

Yet, as I mentioned before, we are unwilling to bargain. Instead, we have cut a kind of interesting bargain: They will vote for truly inconsequential sanctions, and we will do a great job of convincing the press that we have actually accomplished something.

For example, we now have U.N. sanctions that say the head of the Quds Force not only cannot visit Disney World, but they cannot visit even Euro Disney. I doubt that is enough to change Iranian nuclear behavior.

What we need, as I have alluded to, is linkage between what we do on issues of importance to Russia and China and what they do vis-à-vis Iran.

We also don't have to wait for U.N. sanctions. There are a number of things that we can do without the Security Council. For example, we could actually have an administration that follows the law. And I refer to the Iran Sanctions Act, which has been consistently ignored by this administration and the last administration. We could stop allowing the Pentagon to procure weapons that sell munitions items to Iran; but instead, that is what the Pentagon is doing today.

Our current efforts are not enough. They have been significant—just significant enough to fool the press. For example, Treasury has prevented four Iranian banks from doing business with the New York Federal Reserve branch, while allowing other Iranian banks to do so. And if the Iranians aren't able to use an Iranian bank, which they still can do under our extremely limited sanctions, they are free to do the same transaction through a European bank.

Upon designating the Iran Revolutionary Guard Corps as a terrorist organization, there were a few hours in which it seemed like we might impose secondary sanctions. That is to say, you can't sell trucks in the United States if you sell trucks to the Iran Revolutionary Guard Corps. Within hours, Treasury announced, "Sorry, we don't really mean that. No secondary sanctions. You can do business as usual in the United States while doing business as usual with the Iran Revolutionary Guard Corps."

There is so much we can do. What we need to do is use Radio Farda to broadcast a message that Iran faces diplomatic and economic isolation if it doesn't abandon its nuclear program. The problem is, I can't lie that well in Farsi. She faces almost no sanctions—no U.N. sanctions, no effort by the United States to use the laws on the books to prevent business as usual with companies in Europe and Asia.

We have before us two fine servants of the public who are told to go do their best, as long as no European company is offended, and, as long as we make no linkage to any issue of importance to Russia and China.

I want to commend you for doing your best, but, at the same time, point out that by doing your best under these circumstances, you have been part of an overall effort to fool the American public.

I yield back.

[The prepared statement of Mr. Sherman follows:]

PREPARED STATEMENT OF THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

As we speak, Iran has over 3,000 centrifuges installed, and is installing more, at the enrichment facility in Natanz. With 3,000 functioning centrifuges, if the Iranians chose, they could enrich enough uranium for a bomb in less than a year. Yet we have not come close to imposing the type of sanctions that could cause them to even consider changing course on uranium enrichment.

Unless we start causing some pain to Iran's government and its economy, not mere inconvenience, but actual economic dislocation, we will soon be faced with a nuclear adversary unlike any other we have faced in the past—one which we may not be able to deter. Without at least the credible threat of very serious punitive economic measures, all our other efforts are virtually guaranteed to fail to prevent this eventuality.

THE NIE

Last year's National Intelligence Estimate recognized that Iran's enrichment program continues unabated. And the key sentence of the unclassified NIE appeared in its lone footnote:

For the purposes of this Estimate, by "nuclear weapons program" we mean Iran's nuclear weapon design and weaponization work and covert uranium conversion-related and uranium enrichment-related work; we do not mean Iran's declared civil work related to uranium conversion and enrichment.

The centrifuge program is the key to Iran's nuclear program. The NIE recognized this, and it recognized that Iran's suspension of weaponization work would not delay the date that Iran would most likely be able to produce enough highly enriched uranium (HEU) for a bomb—sometime in middle of the next decade in the conservative guestimate of the authors. Again, I will point out that with 3,000 centrifuges, you could produce enough HEU for a bomb within a year.

THE THREAT FROM IRAN

An Iranian nuclear bomb means the end of the Nonproliferation Regime. There will be a cascade of states, forgive the pun, that will be compelled to follow suit, and other tyrants will simply follow Iran's example. After all, what price has Tehran really paid for shredding its NPT commitments so far?

Iran is the number one state sponsor of terrorism. Now, imagine terrorism with impunity.

For the last two decades, the United States has not faced a *hostile* nuclear power. If Iran had a nuclear weapon, we would be eyeball to eyeball with a very hostile nuclear state. Iran with a nuclear weapon is, at best, a mini-Cuban missile crisis—occurring about every month or so. Iran might interfere with the Straits of Hormuz, or engage in some new act of terrorism, and every such provocation would put us eyeball to eyeball, not with a Khrushchev, but with someone considerably less sane.

If the current regime in Iran thinks it is going to be overthrown, sensing their days are numbered, they may decide that they might as well go out with a bang. There are people in that regime who really believe their role is to bring about the coming of the Mahdi, by confrontation and violence. We must not allow ourselves to believe that we are safe here in the United States, behind a missile defense shield that might work someday, somehow. It is easier to smuggle a nuclear weapon than it is to smuggle a person across the United States border, and you do not have to be a rocket scientist to hide a nuclear weapon inside a bale of marijuana.

A LACK OF PRIORITIES

Yet American policy is adrift. On the one hand, we push policies anathema to Russia, such as the eastward expansion of NATO; on the other hand, we basically give China a free pass, allowing them to violate trade rules and run up a massive trade surplus with the U.S. We never even hint that how we deal with these two key countries will be determined by their assistance on Iran issues. Is it any wonder both countries have worked to water-down all three of the U.N. Iran resolutions to near irrelevance?

Unfortunately, we have never offered Russia anything in exchange for greater cooperation on Iran. The keys in diplomacy are *linkage* and *prioritization*. We have all but explicitly told Russia that whatever they do or do not do with Iran, it will not affect our policies toward Chechnya, Abkhazia, Moldova, the pace and breadth of NATO expansion or anything else that Russia cares about. We consistently offer them nothing, and we do not *link* any other foreign policy consideration to Russia's help on Iran. With China, we have never done so much as hint that our trade relationship could be affected—perhaps through a tough response to currency manipulation if China's help is not forthcoming.

BUT DON'T WAIT FOR THE U.N.

We need to link our China and Russia policies to our Iran policy if we are to get tough U.N. sanctions. But in the meantime we also need to push Europe and our friends in Asia to stop doing business as usual with Iran, with or without the U.N. We also need to redouble our own unilateral sanctions efforts.

The Bush Administration has essentially ignored the Iran Sanctions Act, which allows them to slap penalties on foreign firms that help Iran develop its energy sector; opposes the Iran Counter-Proliferation Act, that would close loopholes in the Iran Sanctions Act and impose other economic sanctions; has failed to prevent the continued disbursement of \$1.3 billion worth of World Bank loans to Iran; opposes legislation that would merely *authorize* states, private pension and mutual fund managers to divest from Iran; and even protects Iranian assets from being seized to satisfy the court judgments of victims of Iranian terrorism. The Pentagon buys from foreign suppliers that do business with Iran, supposedly an enemy of the United States that helps kill our soldiers. It is easy to blame others, but we have not even taken some very basic steps ourselves.

OUR CURRENT EFFORTS ARE NOT ENOUGH

The Treasury Department has achieved hero status in this story for its strategy of "targeted sanctions," whereby Treasury designates certain entities, most notably Iranian banks, as supporting terrorism and/or proliferation activities. This imposes a series of sanctions against the entities. In the case of banks, this does have the benefit of prohibiting these from processing large, dollarized oil transactions, because they can no longer indirectly access the Federal Reserve.

Treasury has helped to create an atmosphere of risk associated with Iran that has led to a number of major financial institutions foregoing business with Iran. Treasury directly lobbies financial services companies in Europe and elsewhere, warning them that they need to be careful with Iranian relationships—these are the so-called "informal sanctions." The Administration as a whole claims that countries and firms have taken other voluntary measures, reducing trade and export credits for Iran, in response to similar efforts.

But we have to realize the inherent limits to these efforts. There was great fanfare about the new sanctions that were announced by the Administration on October 21 of last year, when Treasury banned three Iranian Banks, and also named the Iranian Revolutionary Guards Corp (IRGC) as a Specially Designated Terrorist Organization.

Iran still sells oil, so the Iranians are obviously using alternative means of moving money, or perhaps selling oil for Euros instead of dollars. Whichever one of these alternatives they choose, it means they probably will sacrifice a only tiny portion of their oil revenue.

Exhibit A is actually the World Bank, which briefly had to suspend assistance to Iran because it used Bank Melli, one of the designated entities, to transfer funds to its various projects there. They quickly overcame that hurdle, found other ways to keep their precious development projects on track, and the dollars continue to flow.

Upon designating the IRGC, Treasury's press materials hinted at secondary sanctions. In other words, if a European firm sells trucks to the IRGC, then the U.S. government *might* shut down their operations here in the United States. But Under

Secretary of the Treasury Stuart Levey stated later the same day that the United States has no intention of pursuing secondary sanctions on those who continue to do business with targeted Iranian entities. Remember, this group is actually implicated in the killing of American troops in Iraq. I think that goes in the feckless category.

We need to do a lot more to disrupt Iran's economy if we are going to succeed, but time is running out. Legislation is pending in the Congress to tighten sanctions. The Administration does not like it. I urge them to come up with a strategy that we can implement with them to increase the economic pressure. To do otherwise would be both reckless and feckless.

Mr. ACKERMAN. Thank you very much.

We are going to try to get all opening statements of our members in before we go to the floor for the last votes. So, considering the limited time, the chair has consistently not used the clock but I would just ask members if they could in brevity, just out of deference to those who want to get it in before we recess.

The ranking member of the subcommittee.

Mr. ROYCE. Well, I want to thank the chairman for holding this hearing.

I don't think any of us dispute that Iran is one of our greatest security challenges. It has been that way since the Carter administration. It has been that way since the campaign to depose the Shah. And it is not going to change any time soon.

A state sponsor of terrorism, Iran is aggressively meddling in Iraq. It is meddling throughout the Middle East and even in our hemisphere. And when I say "even in our hemisphere," I say it because in my home State of California we had Mahmoud Karani come over the border of California in the trunk of a car and make his way all the way up, I think it was, to Detroit before he was found to be here as a Hezbollah operative and along with some 50 other Hezbollah operatives who he was in contact with here in the United States. He was arrested; he is now in Federal penitentiary.

I mention him also because his brother was in charge of security for Hezbollah. He was trained in Iran. His brother was in charge for security when I was in Haifa when it was being shelled in August 2 years ago. And I saw the damage that his brother was able to do, with those missiles slamming into residential sections of that city, missiles coming from Syria and coming from Iran with 90,000 ball bearings in each one. And when I visited the trauma hospital there, I saw a little bit of the effect of 30 days' worth of attacks by Hezbollah.

By the way, the Prime Minister of Israel told me that a lot of the information they took, as they overran positions while I was there, included information that showed the Iranian involvement in the attacks, that showed Iranian officers had been present during the firing of some of these missiles.

One of the other things he shared with me was the incomprehensible nature of the way in which politics in the United States has gotten to the point where the one asset that Israel had and the United States had that he shared with me in this war was the ability electronically to monitor the phone conversations which would come out of Beirut or come out of the Middle East or come out of Pakistan so that people would know in advance about these attacks, and the way in which we have allowed that information to be broadcast—unfortunately, I might add, through partisanship—be broadcast to the rest of the world, and, by the way, I would just

add, the way in which right now it is much more difficult to monitor Hezbollah's operations.

So for those that are worried about what Iran and Hezbollah is doing today, a little bit of assistance for Israel and for the United States on the security front would be very, very helpful.

Now, yes, Iran appears to be near developing a nuclear arsenal. And we can debate that timeline, but it is either a couple of years or it is 5 years. What is certain is that regional security and our security will be seriously harmed if Iran develops that weapon.

Our diplomatic efforts to prevent this were set back by last November's National Intelligence Estimate. And I have got to tell you, that NIE was botched. The Director of National Intelligence has acknowledged its mishandling. The administration is correctly recasting the Estimate's finding that Iran halted its nuclear weapons program in 2003. Given Iran's insistence on enriching uranium and its ballistics missile program, it is clear to me that Iran has a nuclear weapons program.

But while the NIE has handicapped our efforts to build international pressure before its release, before the release of that report, many countries were already making only half efforts in that regard. For some, the NIE became an excuse for not taking actions that they wouldn't have taken anyway.

By those enthralled by multiculturalism, Russia and China have consistently blocked tough actions against Iran at the United Nations. This week in Shanghai, the major powers failed to agree on a common negotiating position. China resisted sanctions once again. Iran's considerable oil resources, it seems, give it a big shield, though many countries don't even appear much bothered by the spread of nuclear weapons.

So, let's not pin this crisis wholly on U.S. policy shortcomings. It is a policy shortcoming of the civilized world that is failing to come together right now to bring the pressure that is needed.

And the U.S. has taken some innovative actions. The Treasury Department has persuaded foreign banks not to provide financing for exports to Iran or process its dollar transactions. Some of you are familiar with those results.

More can be done to raise the cost of business in an already troubled economy in Iran. We have a point now where you have hyperinflation, you have mass unemployment in Iran. That is because of their centralized economy. It is also because of the actions being taken by banks around the world. We should add Bank Markazi, the central bank of terrorism. That should be targeted, and I am sure it will be.

Several countries are reducing credits for exports to Iran. Many of us have been involved in trying to get Europe to understand the necessity of not financing, through these credits, the Iranian economy.

Radio broadcasting is a powerful tool that worked in Eastern Europe. It is a tool to foment dissent and pressure the regime. You can listen to those programs and you can hear people say, "I have been standing in line here for gas for 3 hours, and this regime has the money to send to Hezbollah but not the money for refining here in my own country?" You can hear those broadcasts broadcast across the country.

Multilateral discussions, they are okay, but sticks are a must. The P5 plus 1 put many carrots on the table 2 years ago. They even included allowing Iran to resume Iranian enrichment if properly safeguarded. And, again, Iran rejected this offer, gaining time.

Two years later, facing Iran's nuclear push, time is not on our side. We need to levy as much pressure as possible, building our leverage as soon as possible. And we need to do it in a bipartisan way.

Thank you.

Mr. ACKERMAN. We have barely 5 minutes before being on the floor. Mr. Poe, do you think you can do this in a minute?

Mr. POE. I will be as brief as I can, Mr. Chairman. Thank you.

Mr. ACKERMAN. You are recognized, sir.

Mr. POE. Thank you.

I had the opportunity to be in Iraq over the Easter weekend to see the military and see General Petraeus. And while there, on Easter morning at 6 o'clock a.m., five rockets came into the area in which a couple of us were staying. Later, we learned that those rockets were all made in Iran. And we also learned that possibly the people firing those rockets were just people that were paid money by the Iranian Government to shoot those rockets into the Green Zone, because it appears that Iran will pay anybody in Iraq a couple hundred dollars of United States money to put IEDs in the road or to shoot rockets. And after talking to General Petraeus, I think what we are doing there is good, except the main problem, of course, is the Iranians that are next door.

Iran has a history, a long history of being a rogue nation, and continues to do so. And if we are looking for blame, we can go all the way back to the Carter administration, where this mess started and continues to this day.

And, for some reason, President Carter won't leave well enough alone, and he is meeting with our enemy, Hamas, tomorrow. Hamas, Hezbollah, funded by the Iranian Government, they are looking for any way they can to cause chaos in the world theater. And that includes us.

Now, London Times reports that long-range ballistic missiles are in the Iranian area, capable of reaching not only Europe but our allies in the Middle East, including Israel. And so, each day that passes, we are concerned about their growing military threat, and now they are moving into the area of nuclear weapons.

I serve as one of the two Members of the United States House of Representatives as a representative in the United Nations. And, as we all know, the United Nations continues to pass sanction after sanction after sanction against the Iranians, and of course we know those are hollow words. It doesn't seem to do much, in my opinion, to stop the nuclear threat.

So my concern is, one, Mr. Ambassador, in the Iranian country itself, how do the people of Iran feel about this situation? And is there a movement in Iran to replace their own Government? What is the status of that? What direction is it moving in? And of course—

Mr. SHERMAN. Mr. Poe, we really do have to go vote.

Mr. POE. And I will have the other questions later.

Thank you, Mr. Chairman.

Mr. SHERMAN. Thank you.

[Recess.]

Mr. ACKERMAN. The subcommittee will come back to order.

I am pleased to welcome our two distinguished witnesses. I may be critical of the administration's policies, but I have nothing but respect for the two exceptional public servants that we have with us here today.

Ambassador Jeffrey D. Feltman is Principal Deputy Assistant Secretary of State, Bureau for Near Eastern Affairs. A career member of the Foreign Service since January 1986 until January 25th of this year, he served as U.S. Ambassador for Lebanon, having been sworn in in July 2004. He was head of the Coalition Provisional Authority's office in the Irbil province of Iraq and simultaneously served as Deputy Regional Coordinator for CPA's northern area. From August 2001 to December 2003, Ambassador Feltman served at the U.S. Consulate-General in Jerusalem, first as Deputy Principal Officer and then, from July 2001 until September 2002, as Acting Principal Officer. In addition to staff positions in Washington, Ambassador Feltman has also served in Tel Aviv, Tunisia, Hungary and Haiti.

Ambassador Feltman, it is nice to see you again. I think the last time we met was a few years back, in Beirut.

Mr. Daniel Glaser is the Treasury Department's Deputy Assistant Secretary for Terrorist Financing and Financial Crimes. He is the primary Treasury official responsible for the development and coordination of international anti-money laundering and counter terrorist financing policy. He serves as the head of the U.S. delegation to the Financial Action Task Force, and is co-chair of FATF Working Group on Terrorist Financing. Mr. Glaser previously served as the first Deputy of the Executive Office of Terrorist Financing and Financial Crimes, which was established in March 2003, and prior to that as a Director of the Money Laundering and Financial Crimes section within the Treasury's Office of Enforcement. Mr. Glaser has also served as senior counsel for financial crimes in the Office of the Treasury's General Counsel, and prior to that as an attorney in the U.S. Secret Service Office of the Chief Counsel.

Welcome to both of you.

Without objection, your entire statements will be placed in the record. And I would ask, if possible, if you can summarize those statements in about 5 minutes each.

Ambassador Feltman, we will turn to you, and then we will turn to Mr. Glaser.

STATEMENT OF THE HONORABLE JEFFREY FELTMAN, PRINCIPLE DEPUTY ASSISTANT SECRETARY, BUREAU FOR NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. FELTMAN. Thank you, Chairman Ackerman, Chairman Sherman, other representatives and distinguished members of this committee. Thank you for this opportunity to discuss U.S. policy options regarding Iran.

I would like to put Iran in context by noting some of the other challenges it poses to United States interests; namely, its destabilizing regional policies, its role as the world's leading state spon-

sor of terrorism, and the regime's oppression of its own people, its oppression of Iranian society.

But, first, I would like to offer a word of personal thanks to Chairman Ackerman for his leadership on Lebanon. There are many Lebanese who were heartened by the strong words, by the measures that Chairman Ackerman took in supporting Lebanese freedom from Iranian and Syrian control. And it was a source of strength for me during my 3½ years that I was in Lebanon.

So thank you very much, Chairman, for your leadership on Lebanon.

I also want to thank Mr. Pence for mentioning the important anniversary tomorrow. I think it is appropriate that we are discussing Iran now, this week, when we are commemorating tomorrow, the 25th anniversary of the bombing of the United States Embassy in Beirut.

Iran's targeting of United States personnel of course began early with the 1979 takeover of the United States Embassy in Tehran, but it took on a new order of magnitude in Beirut in 1983. So throughout my tenure as Ambassador to Lebanon, I faced the problem of Iranian support for terrorism every day in the form of Hezbollah.

In terms of Iran's destabilizing behavior, Iran undermines the elected Government of Iraq and endangers our soldiers and diplomats by providing lethal support to Iraqi militants.

Speaking about Iran's malignant influence in Iraq, on April 10th the President said that the Iranian regime has a choice to make: It can choose to live in peace with its neighbor, enjoying strong economic, religious and cultural ties; or it can continue to arm, fund and train illegal militant groups which are terrorizing the Iraqi people and turning them against Iran.

While we would like to see a peaceful relationship between Iran and Iraq, make no mistake, the United States will act to protect its interests, our troops and our Iraqi partners.

We have talked about Iran's destabilizing influence in Lebanon, but Iran also undermines the Israeli-Palestinian peace process through its support for terrorist groups. In Afghanistan, Iran destabilizes the Karzi government through assistance to the Taliban.

Let's now turn to the nuclear issue, which is the topic of the testimony today.

Iran continues its disregard for the demands of both the International Atomic Energy Agency and the United Nations Security Council for the suspension of its enrichment and related reprocessing activities.

The December 2007 National Intelligence Estimate, which many of you mentioned in the opening remarks, makes clear that Iran's leadership remains committed to two key elements of building a nuclear weapon: Acquisition of high-grade nuclear material and development of a capable delivery system. And, as Chairman Sherman and others noted, Tehran can restart the third element, weaponization, any time and, conceivably, could have already taken that step.

We remain committed to finding a multilateral, diplomatic solution to address the threat posed by Iran's nuclear proliferation sensitive activities and its overall destabilizing influence in the region.

We are pursuing a dual-track strategy toward Iran in concert with the five permanent members of the Security Council plus Germany, what we call the P-5 plus 1.

The first track is the incremental escalation of pressure that you have asked for, Mr. Chairman, in your remarks, incremental pressure to encourage the Iranian regime to revise their strategic nuclear calculus, to abandon once and for all Iran's long-term nuclear weapons ambition.

The second track of our policy is that P-5 plus 1 package of incentives that would cover the gamut of political, economic, technical and social benefits, including the guarantee of nuclear fuel for a genuinely verifiable civilian nuclear energy program.

In addition, Secretary Rice has stated numerous times in an offer first made in May 2006 that, should Iran meet its Security Council obligation to suspend Iranian enrichment and other proliferation sensitive activities, at that time she would personally sit down with her Iranian counterpart anyplace, any time, to discuss all issues.

Let's look at the pressure points. Over the past year, we have had a number of successes in working with our partners to increase the pressure. In March 2007, the Security Council unanimously passed, under Chapter 7, U.N. Security Council Resolution 1747, which followed up on an earlier one of the previous December, 1737. The pressure increased again with the passage last month, on March 3rd, of U.N. Security Council Resolution 1803.

We believe that the strong support for 1803, the fact that we are able to maintain the international consensus regarding Iran's nuclear ambitions, shocked Tehran and further demonstrated the international community's profound concerns over Iran's nuclear program.

Iran's cooperation with the IAEA to date has been incomplete and fitful, and the U.N. Security Council has requested a follow-up report from the IAEA on or about June 3rd to answer two simple questions: Has Iran fully and verifiably suspended its proliferation sensitive nuclear activities? And is Tehran in compliance with its international obligations as outlined by the IAEA Board of Governors in U.N. Security Council Resolutions 1737, 1747 and 1803?

I assure you, Mr. Chairman, the United States will continue to pressure Iran through a range of financial matters, both unilaterally and in coordination with the international community, to halt Iran's nuclear proliferation efforts as well as to stop its support of terrorism. I am sure Danny will go into more detail on the important role Treasury is playing, and many of you made reference to that in your own remarks.

But let me say that this strategy is working. Around the world, firms and banks are pulling back from investments in or deals with Iran. More and more firms, countries, companies, individuals are recognizing the risks of doing business with Iran.

In closing, I note that Secretary Rice noted at Davos that the United States has no desire to have a permanent enemy in Iran, even after 29 years of difficult history. We have no conflict with the Iranian people. And an important part of our Iran strategy is to build bridges to the people themselves through exchanges and other outreach programs, such as the broadcasting that is so important.

And, indeed, should Iran comply with its U.N. Security Council obligation to suspend enrichment and cooperate with the IAEA, the Secretary has said, and I quote:

“We could begin negotiations and we could work over time to build a new, more normal relationship, one defined not by fear and mistrust but growing cooperation, expanding trade and exchange, and the peaceful management of our differences.”

Iran should take this opportunity to rejoin the international community, build better lives for its people, and support peace and stability in the region.

Thank you.

[The prepared statement of Mr. Feltman follows:]

PREPARED STATEMENT OF THE HONORABLE JEFFREY FELTMAN, PRINCIPLE DEPUTY ASSISTANT SECRETARY, BUREAU FOR NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

U.S. POLICY ON IRAN

Chairman Ackerman, Chairman Sherman, Representative Pence, Representative Royce and distinguished Members of the Committee, thank you for inviting me here today to discuss U.S. policy on Iran. Iran presents a profound threat to U.S. national security interests. The radical regime in Tehran threatens regional and international security through its pursuit of technologies that could give it the capability to produce nuclear weapons, its support for terrorist groups and militants in Iraq, Afghanistan, Syria, Lebanon, and the Palestinian territories, its destabilizing regional activities, and its lack of respect for human rights and civil society.

From its location at the crossroads of the Middle East and South Asia, a nuclear-armed Iran would threaten countries on three continents, and potentially even the U.S. homeland directly sometime late next decade. A nuclear-armed Iran would also intimidate moderate states in the region and embolden Iran's support for Hizballah, certain Iraqi Shia militants, the Taliban, and Palestinian terrorist and rejectionist groups. The international community's failure to prevent Iran's acquisition of such weapons would additionally imperil the international nonproliferation regime by casting into doubt our collective ability and commitment to prevent the spread of weapons of mass destruction and spurring Iran's neighbors and others to develop nuclear weapons. Meanwhile, the influence of former and current Islamic Revolutionary Guard Corps (IRGC) members in Iranian society has grown over the past five years. The IRGC, the military vanguard of the Iranian revolution, is a key actor in Iran's ballistic missile program and in Iranian support for terrorism. IRGC affiliates in national security related agencies have sought greater control of Iranian strategic policy, while the IRGC and IRGC-owned companies have acquired millions of dollars in government contracts. Iran's disregard for international law and ongoing support for terrorism highlight the necessity of continuing pressure to undercut the Iranian regime's ambitions and to limit its destabilizing activities throughout the region.

In recognition of these threats, our goal is to convince Iran to forever abandon its nuclear weapons ambitions and urge Tehran to become a better neighbor in the region. The U.S. approach is informed by two guiding documents: the National Security Strategy of 2002 (updated in 2006) and the National Strategy to Combat Weapons of Mass Destruction of 2002. In both documents, the United States makes clear that it will not permit countries to develop weapons of mass destruction in contravention of their international obligations or to utilize those weapons to threaten the United States, its allies, and its friends. To respond to the range of challenges presented by Iran the Administration has stressed the use of all tools and options available, including multilateral diplomacy, financial measures, counterproliferation actions such as interdictions, and, as a final resort, the threat and use of military force.

We are committed to a diplomatic solution to pressure the Iranian regime to change its behavior on the nuclear issue. The U.S. diplomatic strategy toward Iran consists of a dual-track approach in concert with the other permanent members of the UN Security Council—China, France, Russia, and the United Kingdom—plus Germany (the P5+1). These tracks are mutually reinforcing and complementary. The first is the escalation of pressure on the Iranian regime to help prompt a revi-

sion of their strategic nuclear calculus, specifically, a decision to abandon once and for all any long-term nuclear weapons ambitions. Without a change in the regime's strategic course, the U.S. and our partners will work together to consider additional measures. Also to help prompt such a strategic shift, the second track of our policy is represented by our standing offer of a generous package of incentives that cover the gamut of political, economic, technological, and social benefits that would accrue to the Iranian people were the regime to resolve international concerns with its nuclear activities. As part of this offer, Secretary Rice announced in May 2006 that, should Iran create the necessary conditions for negotiations by meeting its UNSC obligation to suspend all uranium enrichment-related and other proliferation-sensitive activities, she would be willing to meet with her Iranian counterpart any place, at any time, to discuss any issue.

Since May, 2006, we have presented Iran with an increasingly stark choice between two paths: confrontation and isolation; or, cooperation and reward. Critical elements of this strategy include:

- Multilateral pressure via escalating sanctions at the UNSC and elsewhere;
- Unilateral sanctions, including U.S. designations of Iranian banks and other entities involved in Iran's proliferation-related activities and support for terrorism;
- Support for the ongoing IAEA investigation;
- The P5+1 incentives package and Secretary Rice's promise of wide-ranging talks should Iran suspend its enrichment-related and reprocessing activities; and,
- Outreach to the Iranian people through exchange programs, Farsi-language broadcasting, and support for civil society.

While we believe we are having an impact, we have yet to achieve our specific objective of persuading Iran to step off its current nuclear course. However, Iran's past behavior shows that it can be responsive to international pressure.

Multilateral Approach

Multilateral diplomacy is the predominant element of our strategy. Since aspects of Iran's covert nuclear program were first disclosed publicly in August 2002, the international community has agreed to three rounds of increasingly punitive Chapter VII UNSC sanctions on Iran, demonstrating international resolve that Iran must meet its nuclear nonproliferation obligations.

Following the August 2002 revelations, the IAEA undertook an extensive investigation into Iran's nuclear program. This investigation uncovered numerous violations of Iran's IAEA Safeguards Agreement, including nuclear facilities and activities Iran had failed to declare to the IAEA, as well as Iranian procurement of sensitive nuclear items and materials from illicit nuclear supply networks. These serious violations led the IAEA Board of Governors in September 2005 to find Iran in noncompliance with its Safeguards Agreement and, subsequently, to report the issue to the United Nations Security Council in February 2006.

The Board's actions in February led to the UN Security Council adopting a Presidential Statement in March 2006 and Resolution 1696 in July 2006. Both called on Iran to suspend its proliferation sensitive nuclear activities (relating to uranium enrichment-related, reprocessing, and heavy water-related production) and cooperate fully with the IAEA; the latter warned of the imposition of sanctions absent Iran's suspension. Iran's decision not to heed Resolution 1696 led to the UN Security Council adopting Resolution 1737 (December 2006), which imposed the first set of Chapter VII sanctions on Iran. Unfortunately, Iran continued to ignore the demands of the Council. In response, the Council adopted Resolution 1747 (March 2007) and Resolution 1803 (March 2008), imposing two more rounds of sanctions on Iran.

These sanctions, *inter alia*:

- Require Iran to suspend its proliferation sensitive nuclear activities, including enrichment of uranium, and cooperate fully with the IAEA;
- Prohibit the transfer of nuclear, missile, and dual use items to Iran, except for when used in light water reactors or needed for IAEA technical cooperation;
- Prohibit Iran from exporting such technologies or any arms;
- Freeze the assets of 40 individuals and 35 entities associated with Iranian proliferation or destabilizing regional activities (including the Atomic Energy Organization of Iran, Bank Sepah, and several Iranian front companies);
- Require vigilance and restraint with respect to the travel of 35 individuals, and ban the travel of 5 others;

- Call on states not to export to Iran certain heavy arms or to make new commitments for public support for business in Iran;
- Call for vigilance with respect to the activities of all banks domiciled in Iran, particularly with regard to Bank Melli and Saderat; and,
- Call for states to inspect cargoes borne by Iran Air Cargo and the Islamic Republic of Iran Shipping Lines (IRISL) if there are indications that they are carrying proscribed cargo for Iran.

The true effects of multilateral sanctions, especially on a regime's decision-making, are difficult to gauge. However, at a minimum, these sanctions are limiting Iran's access to sensitive technologies and goods, with the possible impact of slowing Iran's nuclear and missile development. These sanctions are also impairing Iran's ability to access the international financial system, fund its weapons programs and terrorist activities, and secure investment for strategic sectors, as many states and firms no longer wish to associate themselves with the Iranian regime. They keep Iran on the defensive, forcing it to find new finance and trade partners and replace funding channels it has lost.

The sanctions have a psychological impact, as well. Iran has demonstrated its desire to assume the economic and political role it believes it deserves in the region, and to be seen as a legitimate player in the international community. But the series of UN resolutions has shown the world—and Iran—that the international community will not allow an irresponsible actor such as Iran to expand its power unchecked.

The United States is working with international partners—particularly the European Union—to adopt complementary sanctions in order to increase the pressure on Iran. We have also urged other international partners to review what additional measures they could impose on Iran following the adoption of UNSCRs 1737, 1747, and 1803.

The United States continues to take a leadership role within multilateral non-proliferation institutions. In addition to the IAEA, we have worked with our international partners in the Nuclear Suppliers Group, Missile Technology Control Regime, and Australia Group to sensitize them to the risks inherent in technology trade with Iran and, following the adoption of UNSCRs 1737, 1747, and 1803 that banned much of this trade, how to avoid Iranian attempts to acquire sensitive items through diversion or illicit practices.

Major banks such as Commerzbank, Credit Suisse and HSBC have decided that the risk of doing business in Iran is too great and have ended or limited their business with Iran. The effects of Iran's growing international stigma may, in the end, be as substantial as the direct economic impact of any sanction. Losing the ability for a single Iranian bank such as Bank Sepah to conduct business overseas is painful to Iran. Having major international financial institutions refuse to do business with Iran because of the legitimate business risks that such trade present may be worse.

Unilateral Sanctions Implementation and Designations

U.S. national sanctions implementation and designations are a critical component of such an approach. In addition to the U.S. comprehensive economic embargo on Iran, we have strengthened our existing measures through the designation of specific Iranian individuals and entities through both Executive Order 13382 (Counterproliferation) and Executive Order 13224 (Counterterrorism).

On 25 October 2007, in one of the most aggressive demonstrations of these authorities, the Departments of State and Treasury announced the designation of dozens of entities and individuals. Of particular significance was the designation of Iran's Islamic Revolutionary Guard Corps (IRGC), the Ministry of Defense and Armed Forces Logistics (MODAFL), Bank Melli, and Bank Mellat for their support for Iranian proliferation, and the IRGC-Qods Force and Bank Saderat under E.O. 13224 for their support for terrorism. Most recently, the U.S. Financial Crimes Enforcement Network (FinCEN) issued an advisory with respect to Iranian deceptive financial practices, cautioning financial institutions to take into account the risks inherent in dealings with Iran as a result of these practices and U.S. and international prohibitions on dealings with designated entities.

Such sanctions augment the current trade and investment ban in place with respect to Iran by subjecting various Iranian persons to blocking. By targeting these individuals and entities, as well as demonstrating the extent of U.S. concerns with Iran and the Iranian regime's status as an international bad actor, we will deepen the regime's international isolation and increase the pressure being placed on the regime. U.S. designations also have reverberating effects in the international finan-

cial system, as many major international banks have taken action against these entities and individuals on their own accord, following our example.

In addition, we have pursued an aggressive diplomatic campaign, talking to CEOs and senior government officials, to discourage investment in Iran's petroleum sector. We firmly believe that now is not the time for "business as usual" with Iran, and actively monitor any reported investment in Iran's oil and gas sector. We review such cases in light of the Iran Sanctions Act, which provides for the imposition of sanctions on persons making certain investments in Iran's oil and gas sector.

Overall, we have seen positive effects from this comprehensive strategy. Around the world, firms and banks are pulling back from investment in or deals with Iran, or are adjusting their costs in order to address the risk premium attached to such business. There are exceptions, and Iran's status as a major oil and natural gas supplier as well as its lucrative domestic market will always be tempting to states and international businesses. However, we will continue to undertake domestic actions as appropriate and necessary to protect the U.S. financial system and to convince our partners to do the same.

Support for the IAEA's investigation

The United States continues to support the work of the IAEA in its ongoing investigation in Iran. As the main international institution with responsibility for verifying the non-diversion of nuclear material and providing credible assurance of the absence of undeclared nuclear activities, the IAEA's work in Iran is essential.

We have demonstrated our strong support by working with others to include authorities in the relevant UNSC and IAEA Board resolutions that further empower the IAEA in Iran. Through our pre-existing supply of monetary and technological support (i.e., helping develop safeguards technology) for the IAEA, we have further enhanced the Agency's ability to undertake this investigation in as effective and professional a manner as possible. The United States also provides training to IAEA inspectors every year in order to enhance the Agency's overall safeguards capabilities.

Through the execution of its mandate for international nuclear safeguards, IAEA inspectors have uncovered and investigated illicit Iranian nuclear activities and violations of the IAEA Safeguards Agreement. Most recently, on 22 February 2008, the IAEA reported that it had received from multiple member states extensive documentation that detailed Iran's past attempts to develop a nuclear warhead. The IAEA elaborated on this report during a technical briefing on 25 February that showed IAEA member states some examples of this documentation and other materials. In so doing, the IAEA heightened international attention on Iran's nuclear program and sharpened the focus of the international community on the urgency of preventing Iran from acquiring a nuclear weapons capability. Press reports have indicated that many states are sharing more and more information with the IAEA to further its investigation; we look forward to the IAEA's continued efforts to uncover the true extent of Iran's nuclear weapons-related work and ambitions. We will continue to lead strong international consensus that Iran must make a full disclosure of any nuclear weapons-related work and allow the IAEA to verify that it has stopped. Anything short of a demand for full disclosure would undermine not only our efforts to provide international verification that Iran is not developing or preserving a nuclear weapons option, but also would undermine the integrity of the IAEA safeguards regime worldwide.

Open Door to Negotiations

At the same time we are seeking to maintain and enhance the pressure on Iran's leadership, we continue to offer Iran the opportunity to resolve international concerns about its behavior through negotiations. Each UN Security Council resolution reaffirms the generous 2006 P5+1 offer and commitment to a negotiated solution. Secretary Rice has frequently made clear her commitment to the path of negotiations by offering to sit down with her Iranian counterparts "any time, any place" in good-faith negotiations should Iran undertake the essential confidence-building measure of suspension. We hope that Iran will make the right strategic choice to enable such negotiations to begin. Should Iran suspend its enrichment of uranium and other proliferation sensitive activities, the P5+1, which includes the United States, will engage with Tehran on the package of incentives covers an extensive range of disciplines and fields including:

- Light water reactor assistance;
- Nuclear energy cooperation;
- Nuclear fuel guarantees;

- Economic engagement, including through membership in the World Trade Organization;
- Regional security cooperation; and,
- Technological sharing in telecommunications, agriculture, and civil aviation.

This combination of incentives would give the Iranian regime what it claims it wants—nuclear energy—faster, safer, and cheaper than the path it is pursuing now.

We have also been careful to target our pressure-based approach to the Iranian regime's leaders and illicit activities. International sanctions have yet to be applied to the Iranian economy writ large, though the effects of Iran's continued intransigence will likely begin to impinge on the general Iranian economy as time wears on. The refusal of the regime's leadership to abide by its international nuclear obligations and, indeed, its decision to push forward aggressively with its enrichment and heavy water programs will unfortunately affect Iran's citizens in a negative fashion, if for no other reason than because of the tremendous cost of the program. That money could be spent on projects that would help the Iranian people. Let it be clear, however, that the Administration's support for the Iranian people is not empty rhetoric, but rather a directing principle in our approach to Iran.

We have also engaged in negotiations with Iran on the specific issue of Iraq. Unfortunately, as Ambassador Ryan Crocker and General David Petraeus' recent testimony made clear, Iran's continued provision of lethal support to Iraqi extremists casts considerable doubt on its protestations that it wants stability in Iraq and is serious about negotiations with the United States. Iran has had many opportunities to negotiate, whether with the EU-3 or, more recently, directly with the United States. Unfortunately, Iran's track record as a negotiating partner is not a good one, and while we remain hopeful that Iran will finally choose to restore international confidence through negotiation we must be clear: Iran will come under increasing pressure, and higher costs, by continuing to disregard the will of the international community.

Iran's Destabilizing Actions Abroad

Looking beyond Iran's nuclear aspirations and the specific steps the U.S. is taking with its international partners in the UN Security Council and the IAEA, the regime's aggressive foreign policy and hegemonic posturing constitute an increasing threat to regional security and U.S. interests. Iran is the world's most active state sponsor of terrorism; it provides financial and lethal support to Hizballah, HAMAS, Palestinian Islamic Jihad, as well as to certain Iraqi militant groups and the Taliban. The role that the Islamic Revolutionary Guard Corps-Qods Force plays in supporting foreign militants is extremely problematic.

As the international community is engaged in efforts to promote dialogue between the Israeli and Palestinian Prime Ministers, Iran is providing support to those who deny Israel's right to exist and whose unrelenting terrorist attacks on Israeli citizens threaten to sabotage these negotiations and—with them—the aspirations of the Palestinian people.

We condemn Iran's lethal support for Iraqi militant groups—and as General Petraeus and Ambassador Crocker recently testified—we are taking steps to counter these destructive activities in Iraq. President Bush noted on 10 April that the regime in Iran has a choice to make: it can choose to live in peace with its neighbors, enjoying strong economic, religious and cultural ties, or it can continue to arm, fund and train illegal militant groups, which are terrorizing the Iraqi people and turning them against Iran. If Iran makes the right choice, America will encourage a peaceful relationship between Iran and Iraq. If Iran continues down the current path, Iran's leaders should know that we will take active measures to protect our interests, and our troops, and our Iraqi partners. As recent events demonstrate, Iran's support for extremist militias that undermine the government of Iraq, intimidate the local population, and engage in unlawful acts may be backfiring; the Iraqi people are turning away from Iran. They are worried that Iran does not support a democratic, stable government in Iraq, but rather wants to keep Iraq weakened, fractured, and destabilized. If this is not Iran's goal in Iraq, it will have to prove it to the Iraqi people by curtailing its support to extremist militias and supporting the legitimate government.

Iran faces a similar choice in Lebanon. Iranian influence in Lebanon is also of great concern, where Iran continues to rearm and financially bolster Hizballah, which is seeking to create a state within a state in Lebanon. The United States condemns Iran, Syria, and Hizballah for undermining the legitimate institutions of the Government of Lebanon. Moreover, through its ongoing efforts to supply Hizballah with rockets and other weapons, the Iranian regime has systematically violated its obligations under UN Security Council Resolutions 1559 and 1701. In turn,

Hizballah, enabled also by Syria and Iran, continues to support other terrorist groups, including certain Shia militant groups in Iraq and Palestinian Islamic Jihad.

And Iran even plays a similar game in Afghanistan. Iran's Qods Force provides lethal assistance to the Taliban, threatening Afghan, Coalition, and NATO forces operating under UN mandate in Afghanistan. The Qods Force has arranged a number of shipments of small arms and associated ammunition, rocket propelled grenades, mortar rounds, 107mm rockets, and explosives—including armor piercing explosively formed projectiles. Recoveries of interdicted weaponry, ordnance, and EFPs in Afghanistan indicate the Taliban has Iranian weaponry. Weapons transfers to these groups violate Iran's Chapter VII obligation under UN Security Council Resolution 1747 not to export arms. Iran has also violated UNSCR 1267 and successor resolutions by failing to impose sanctions on al-Qaida and continues to refuse to bring to justice or confirm the whereabouts of senior al-Qaida members it detained in 2003. We hope that Iran's deep and long-standing support to international terrorist groups, combined with its refusal to abide by multiple UNSC resolutions, encourages other nations to join with us to put pressure on this regime to change the reckless course on which it is embarked.

Empowering Iranian Civil Society and Engaging the Iranian People

Before concluding, it is important to discuss briefly the Iranian regime's repressive treatment of its own people. The regime's record of human rights abuse remains abysmal, and has only grown worse over the past year. The regime regularly commits torture and other forms of inhumane treatment on its own people, and restricts the basic freedoms of expression, press, religion, and assembly to discourage political opposition. The regime has purged liberal university professors; threatened, imprisoned, and tortured dissidents, journalists, labor leaders and women's rights activists. The regime denies its people freedom of expression and press by cracking down on bloggers, closing independent newspapers, censoring internet use and blocking satellite dish ownership—all in an effort to control their access to information. The regime also harasses and detains ethnic and religious minorities, particularly the Baha'is. The regime's decision to disqualify hundreds of candidates from participating in its recent parliamentary elections due to their ideology prevented the Iranian people from holding free and fair elections. The Iranian people deserve better from their leaders. We work with the international community to express our common concerns about the mistreatment of the Iranian people by their government.

With funding from Congress, the State Department is supporting a wide variety of programs in a long-term effort to strengthen independent voices in Iran. We fund projects to provide greater access to unbiased information, provide information about U.S. policy and American society and values, strengthen Iran's civil society, increase awareness of human rights, and promote rule of law.

Our public diplomacy efforts on Iran aim to deepen mutual understanding between the people of the United States and the people of Iran. Since we resumed our traditional people-to-people exchanges with Iran in FY 2006 more than 150 Iranian academics, professionals, athletes and members of the artistic community have participated in programs on cultural, medical, legal, humanitarian, and education-related issues. We are also reaching out to web-savvy Iranians through the Department of State's Persian language website.

Separately, our Iran programming focuses on helping Iranians who are working to secure their basic rights and hold their government accountable. We do not support any one group or faction in Iran or overseas, but instead provide opportunities for members of Iranian civil society to learn and connect with their counterparts world-wide. The names of grantees are kept confidential to ensure the safety of participants. Support from Congress has allowed us to fund 26 different organizations based in the United States and Europe who work to advance peaceful, democratic progress in Iran.

In addition to the State Department's efforts, Congressional support to the Broadcasting Board of Governors (BBG) has allowed VOA Persian television and Radio Farda to expand their programming in Iran. VOA Persian Television now broadcasts 24 hours a day, up from only 8 hours per day in 2006, and boosted original Persian language programming from 2 to 6 hours daily. Radio Farda, also broadcasting 24 hours a day, improved its medium wave transmission, expanded its regional news coverage, and enhanced its website.

The United States stands with the Iranian people in their struggle to advance democracy, freedom, and the basic civil rights of all citizens. We believe the Iranian people have made clear their desire to live in a modern, tolerant society that is at peace with its neighbors and is a responsible member of the international commu-

nity. We are confident that if given the opportunity to choose their leaders freely and fairly, the Iranian people would elect a government that invests in developments at home rather than supporting terrorism abroad; a government that would nurture a political system that respects all faiths, empowers all citizens, and places Iran in its rightful place in the community of nations; a government that would choose dialogue and responsible international behavior rather than seeking technologies that would give it the capability to produce nuclear weapons and foment regional instability through support for militant groups.

Looking Forward

U.S. strategy on the Iranian nuclear issue has thus far called attention to the threat posed by Tehran and its nuclear program. We have also been successful in imposing targeted sanctions that are applying pressure to the regime and in highlighting the P5+1 package of June 2006. At the same time, Iran has failed to suspend its proliferation sensitive nuclear activities and has instead deepened its defiance through continued uranium enrichment, testing of an advanced centrifuge design, and construction of the Arak Heavy Water Research Reactor. We have achieved much, but still more needs to be done. While we work towards progress in overcoming Iranian intransigence on the nuclear issue, Iran persists—unabashedly—in its malign regional meddling and support for terrorist groups. Iran's actions must be seen in their entirety, and our policy reflects this.

The United States is committed to preventing Iran from acquiring nuclear weapons and encouraging Iran to take the necessary steps to instill international confidence in the exclusively peaceful nature of Iran's nuclear program. For the international community to have any confidence, however, it will require Iranian suspension of enrichment and proliferation-sensitive activities, good-faith negotiations, IAEA inspections, and resolution of all outstanding IAEA concerns, especially full disclosure by Iran of any nuclear weapons-related activities and full IAEA verification that all such activities have ceased. We are committed to accomplishing this objective through diplomacy, but note that in order to do so the international community must steadily increase the pressure on Iran. Should Iran come to doubt the international community's resolve in the face of its continued intransigence, Iran's leaders would be even more emboldened and prepared to adopt policies that present even greater risks to international peace and stability. With that in mind, no option can be taken off of the table in order to prevent Iran from acquiring nuclear weapons. But we nevertheless remain committed to a diplomatic solution to the Iranian nuclear issue.

In the short term, the United States must continue to press for the swift and robust implementation of all UNSC-imposed sanctions on Iran. This includes complementary actions by multilateral groups such as the EU, and the continued vigilance of the IAEA Board of Governors and multilateral export control regimes.

Conclusion

The United States is committed to its pursuit of a diplomatic solution to the range of challenges posed by Iran. But there is much work to be done. Iran's possession of nuclear weapons is not a foregone conclusion nor has its march to acquire them been inexorable. However, we should also not underestimate the Iranian regime's commitment to its current course. Although Iran appears to have halted its development of nuclear weapons in late 2003, Iran continues to develop its fissile material production programs and ballistic missile capabilities and, as the NIE notes, at a minimum is keeping open the option to develop nuclear weapons. Iran is increasingly feeling the strain imposed by sanctions regimes; but Iranian perseverance in the face of such pressure demonstrates the extent of Iran's commitment to preserve its options to develop a nuclear weapon. We must remain equally committed as a broader international community. We have presented Iran an option: the regime can continue down its current path toward isolation and further sanctions, or it can choose to re-engage with the international community, opening up opportunities for better relations and a brighter future. The U.S. is making every effort to improve U.S.-Iranian relations, but that cannot happen without a change in the Iranian regime's policies. The challenges are daunting, but we are confident that patience and persistence—strengthened by the unity of the international community—will move us towards a resolution of these challenges.

Mr. ACKERMAN. Thank you very much.
Deputy Assistant Secretary Glaser?

**STATEMENT OF MR. DANIEL GLASER, DEPUTY ASSISTANT
SECRETARY FOR TERRORIST FINANCING AND FINANCIAL
CRIMES, U.S. DEPARTMENT OF TREASURY**

Mr. GLASER. Thank you, Chairman.

Chairman Ackerman, Chairman Sherman, and distinguished members of the subcommittees, thank you for the opportunity to speak to you today about the Treasury Department's actions to counter Iran's proliferation activities in support of terrorism.

Working with our colleagues at the State Department, foreign governments, and the international financial community, we are implementing a strategy to apply financial pressure on the Iranian regime. In my remarks today, I will discuss this strategy, including the financial aspects of the threats we face from Iran, Treasury's efforts to counter these threats, and the impact our actions are having.

Iran has demonstrated a clear disregard for the international community by continuing its pursuit of a nuclear capability in defiance of numerous Security Council Resolutions. In fact, Iran has announced to the world the expansion of its nuclear assets. Iran further poses a threat to the international community through its support of terrorism. Iran has long been a state sponsor of terrorism and provides extensive support to Hezbollah, Hamas, Shia extremist groups in Iraq, and the Taliban.

The challenge of this dual threat is exacerbated by Iran's integration into the international financial system, its deceptive financial practices, and its lack of an effective framework to combat money laundering and other illicit finance. In fact, terrorist financing is not even a crime in Iran.

Iran uses various techniques to engage in seemingly legitimate commercial transactions that are actually related to its nuclear and missile programs. This deceptive behavior, coupled with Iran's access to the global economy, gives the Iranian regime the financial capability to support its activities.

All of this adds up to enormous risks for the international financial system. With this in mind, Treasury is implementing a three-pronged strategy to counter the multiple threats Iran poses to the international community.

First, we are using sanctions to target Iranian individuals, companies and branches of the Iranian Government that are engaged in proliferation and terrorism activities. In doing so, we are barring them from accessing the United States financial system, exposing their behavior to the world. Our actions have targeted, among others, four major Iranian banks and Iran's Ministry of Defense.

Second, we are working with our allies to make sure that Iran can find no safe haven within the international financial system. Recent actions by the United Nations and the Financial Action Task Force reflect a broad international consensus not only that Iran's conduct is unacceptable but that financial matters are a vital component in countering it. The challenge now is for country to fully implement commitments that are reflected in these agreements. The international community has made progress in this regard, but there is still considerable work to be done.

Third, we are engaged in a strategic dialogue with the international private sector to reinforce the risks of doing business with

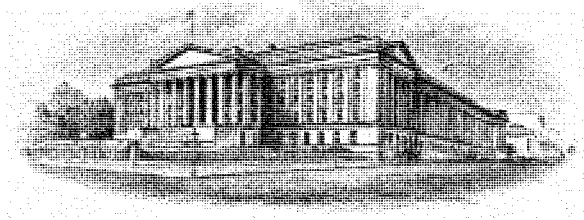
Iran. We have met with more than 40 leading financial institutions worldwide. As part of our outreach to the international financial community, we have issued public advisories providing information about Iran's deceptive financial practices and warning them about the specific risks of doing business with Iranian financial institutions. The most recent of these formal advisories warns the financial community of the deceptive conduct of the Central Bank of Iran itself.

We are seeing indications that our actions are having an impact. With mounting evidence of Iran's illicit behavior, the international financial community is deciding that doing business with Iran is too risky. The world's leading financial institutions have largely stopped dealing with Iran, and especially Iranian banks, in any currency. Iranian financial institutions and businesses have been left with reduced access to private international financial institutions and a lessened ability to attract international investment and capital. Those Iranian financial institutions and businesses that do continue to operate in the international financial system are doing so under intense scrutiny and vigilance.

I would close by saying that we recognize that financial tools alone are not enough to solve this problem, but financial measures are an integral component of United States and international efforts to counter Iran's threatening behavior. Through our authorities and our engaging with our counterparts around the world, we are implementing a financial strategy that is having an impact. This impact will only be enhanced as the international community continues to crack down on Iran's illicit financial behavior through national action and through organizations such as the United Nations and the FATF.

The international financial system is becoming an increasingly challenging and unfriendly environment for Iran's illicit conduct, but it is important that we and our international partners keep up the pressure. This remains a top priority for the Treasury Department, and we will continue to work closely with our colleagues at the State Department and foreign governments and in the international financial community to maximize the effectiveness of our efforts.

Thank you, Mr. Chairman, and I am happy to take questions.
[The prepared statement of Mr. Glaser follows:]



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 1:00 p.m. (EDT), April 17, 2008
CONTACT John Rankin, (202) 622-1343

**DEPUTY ASSISTANT SECRETARY FOR TERRORIST FINANCING
 AND FINANCIAL CRIMES DANIEL GLASER**

TESTIMONY BEFORE THE HOUSE COMMITTEE ON FOREIGN AFFAIRS

**SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA AND THE
 SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION AND TRADE**

WASHINGTON - Chairman Ackerman, Chairman Sherman, Representative Pence, Representative Royce and distinguished members of the Committee, thank you for the opportunity to speak with you today about the Treasury Department's efforts to counter Iran's nuclear program and its deliberate support of terrorism. I want to thank this Committee for its continued support and guidance in our efforts against an Iranian regime that continues to pursue threatening activities. Today, I will focus my remarks on the Treasury Department's strategy and actions to counter this threat and the impact we have achieved on Iranian financial institutions and businesses.

The Iranian Threat

Iran poses significant threats to the international community. Chief among them is the regime's continued pursuit of a nuclear weapons capability in defiance of United Nations Security Council resolutions. Another paramount threat is Iran's provision of financial and material support to terrorist groups. The combination of these two threats presents a lethal challenge that is exacerbated by Iran's integration into the international financial system, and its deceptive financial practices.

Threat of Iran's Nuclear Pursuits

Iran's continued pursuit of sensitive nuclear technologies and missile programs present a deliberate and intolerable threat to the international community. Iran has ignored calls from the

international community to suspend its enrichment-related reprocessing and heavy water-related activities, and defied numerous U.N. Security Council resolutions including:

- Resolution 1696 (2006)
- Resolution 1737 (2006)
- Resolution 1747 (2007)
- Resolution 1803 (2008)

The international community reiterated its position on this issue most recently on March 3, 2008, when the U.N. Security Council adopted Resolution 1803, imposing further sanctions on Iran for its refusal to suspend its proliferation sensitive nuclear activities. Iran has thus far ignored this recent resolution, announcing that it would proceed forward in expanding its uranium enrichment activities. Iran's defiance and disregard for international concern adds to the gravity of the threat.

Threat of Iran's Support of Terrorism

The threat we face from Iran is not limited to its pursuit of a nuclear capability. Another dynamic of Iran's threat is its provision of financial and material support to terrorist groups. Iran has long been a state sponsor of terrorism and continues to support an unparalleled range of terrorist activities. For example, Tehran arms, funds, and advises Hizballah, an organization that has killed more Americans than any terrorist network except for al-Qa'ida, and does so via the Qods Force, a branch of the Islamic Revolutionary Guard Corps. In addition, Iran provides extensive support to Palestinian terrorist organizations, including the Palestinian Islamic Jihad (PIJ) and Hamas. In the case of PIJ, Iran's financial support has been contingent upon the terrorist group carrying out attacks against Israel. And we are all familiar with Iran's funding, training, and equipping of select Shi'a extremist groups in Iraq, further destabilizing that country and resulting in deaths of Americans, Iraqis and others. Iran's Qods Force also provides weapons and financial support to the Taliban to support anti-U.S. and anti-Coalition activity in Afghanistan.

Iran utilizes the international financial system as a vehicle to fund these terrorist organizations. As Under Secretary Levey has previously testified, the Iranian regime operates as the central banker of terrorism, spending hundreds of millions of dollars each year to fund terrorism.

Iran's Integration into the International Financial System

Iran is deeply integrated in the international financial system. Iranian state-owned banks have dozens of branches located all over the world. Additionally, Iranian banks have correspondent accounts at foreign banks for an even broader reach into the international financial system. Moreover, Iranian individuals and entities maintain accounts at foreign financial institutions.

Iran's integration into the global economy and the international financial system gives the Iranian regime global financial capability to support its threatening activities and exposes the international financial system to illicit financing risks posed by the regime.

Iran's Deceptive Financial Practices

Iran uses its global financial ties to pursue both the threat of terrorism and nuclear program through an array of deceptive practices specifically designed to avoid suspicion and evade detection from the international financial community. Iran uses its state-owned banks for its nuclear and missile program and for financing terrorism. For example, Tehran uses front companies and intermediaries to engage in ostensibly legitimate commercial transactions that are actually related to its nuclear and missile programs. These front companies and intermediaries enable the regime to obtain dual-use technology and materials from countries that would typically prohibit such exports to Iran.

Another method Iranian banks use to evade controls is to ask other financial institutions to remove their names when processing transactions through the international financial system. This practice is intended to elude the controls put in place by responsible financial institutions and has the effect of potentially involving those institution in transactions they would never engage in if they knew who, or what, was really involved. This practice allows Iran's banks to remain undetected as they move money through the international financial system to pay for the Iranian regime's illicit and terrorist-related activities. This practice is even used by the Central Bank of Iran to facilitate transactions for sanctioned Iranian banks.

Fundamental Deficiencies in Iran's AML/CFT Regime

In addition to Iran's deceptive financial conduct, substantial deficiencies in Iran's anti-money laundering and combating the financing of terrorism (AML/CFT) regime present a significant vulnerability to the international financial system. Iran lacks an acceptable system of laws and enforcement capabilities that would allow it to detect and prevent money laundering or terrorist financing. Although Iran adopted an anti-money laundering law this year, its content has been heavily criticized by both the Financial Action Task Force (FATF) and International Monetary Fund (IMF) for failing to meet international standards. Moreover, both the FATF and IMF have recognized broader deficiencies in Iran's AML/CFT regime to include:

1. Insufficient criminalization of money laundering.
2. Failure to criminalize terrorist financing.
3. Lack of AML/CFT supervision.
4. Lack of a financial intelligence unit.
5. Lack of sanctions implementation.
6. Lack of international cooperation in AML/CFT investigations.

As FATF has stated in its advisories to the international financial system, these core AML/CFT deficiencies present a substantial vulnerability to the international financial system. The FATF took unprecedented measures to warn the international financial system about the risks arising from the deficiencies in Iran's AML/CFT.

Treasury's Actions to Address the Threat

Addressing this multifaceted threat – the threat of both proliferation and terrorism, reinforced by Iran's deceptive financial conduct and systemic AML/CFT deficiencies – requires a multifaceted strategy, including an essential financial component. In the years since September 11, we have substantially increased our understanding of vulnerabilities in the international financial system and how terrorist and other illicit financial networks exploit those vulnerabilities. Treasury's

strategy to combat the threat that Iran presents, and application of financial pressure to the Iranian regime, builds upon these experiences and consists of three inter-related initiatives:

- Developing and implementing targeted financial measures to combat Iran's proliferation and terrorism support activities;
- Maximizing the impact of U.S. financial actions by securing international support; and
- Engaging in a strategic dialogue with the international private sector to explain the risks of doing business with Iran.

A. Direct U.S. Action Utilizing Treasury Authorities

The U.S. has maintained trade and financial-related sanctions program against Iran for almost 30 years. The current program prohibits virtually all commercial trade between the U.S. and Iran. Our efforts in recent years have focused on a conduct-based targeted financial action aimed at disrupting Iran's proliferation and terrorism activities. We have shown that these types of targeted, conduct-based financial measures aimed at particular bad actors can be quite effective, in part because they unleash market forces by highlighting risks and encouraging prudent and responsible financial institutions to make the right decisions about the business in which they are engaged. They give us a concrete way in which to target directly those individuals and entities we know are bad actors and to strike at the heart of their operations.

Executive Order 13382 – Targeting WMD Proliferators and Their Networks

The Treasury Department relies on Executive Order 13382, a targeted financial sanctions authority, for imposing targeted financial sanctions against weapons of mass destruction (WMD) proliferators and their supporters to pressure Iran. Executive Order 13382 was issued by President Bush in 2005 and added a powerful tool to the array of options available to combat WMD proliferation. By prohibiting U.S. persons from engaging in transactions with entities and individuals targeted by the order, we can effectively deny proliferators and their supporters access to the U.S. financial and commercial systems, cutting them off from the benefits of our economy. These prohibitions have powerful and far-reaching effects, as the suppliers, financiers, transporters, and other facilitators of WMD networks tend to have commercial presences and accounts around the world that make them vulnerable to exactly this kind of financial action, particularly since so many of the transactions are denominated in dollars.

To date, under Executive Order 13382 the Departments of Treasury and State have designated 52 Iran-related individuals and entities as supporting Iran's and missile programs. Targeted entities could range from those under the direct control of the Government of Iran to facilitators in the support network that act as conduits. Some prominent examples include:

- **Aerospace Industries Organization** - The Aerospace Industries Organization (AIO), a subsidiary of the Iranian Ministry of Defense and Armed Forces Logistics, is the overall manager and coordinator of Iran's missile program. AIO oversees all of Iran's missile industries and was designated in 2005 when the Executive Order 13382 was first issued. AIO was also identified by the UNSC Resolution 1737 the following year in 2006 and subject to target sanctions for its involvement in Iran's nuclear program.
- Treasury has designated numerous related AIO organizations, including, **Sanam Industrial Group** and **Ya Mahdi Industries Group**, both designated for their ties to

AIO. Sanam Industrial Group has purchased millions of dollars worth of equipment on behalf of the AIO from entities associated with missile proliferation. Ya Mahdi Industries Group is subordinate to AIO and has been involved in international purchase of missile-related technology and goods on behalf of the AIO. These entities were also identified and sanctioned under UNSCR 1747.

- **Atomic Energy Organization of Iran** - The Atomic Energy Organization of Iran (AEOI) is the main Iranian organization for research and development activities in the field of nuclear technology, including Iran's centrifuge enrichment program. Treasury also designated AEOI in 2005, which was then followed by its designation under UNSC Resolution 1737. Treasury has designated numerous subsidiaries of AEOI network including:
 - Kalaye Electric Company, Kavoshyar Company, and Pioneer Energy Industries Company are owned or controlled by the AEOI or acting for or on its behalf. Kalaye Electric Company has been linked to Iran's centrifuge research and development efforts. Kalaye is also listed in the Annex to UN Security Council Resolution 1737 as subject to targeted sanctions because of its involvement in Iran's nuclear program. Kavoshyar Company's sole shareholder is AEOI. Pioneer Energy Industries Company provides services to AEOI, including technological support.
 - Pars Tarash and Farayand Technique are owned or controlled by, or act or purport to act for or on behalf of the AEOI. Pars Tarash and Farayand Technique were also listed in the Annex to UNSCR 1737 as subject to targeted sanctions for their involvement in Iran's centrifuge program and were identified in reports of the International Atomic Energy Organization (IAEA).

Treasury has also used this authority to designate several state-owned Iranian banks, including:

- **Bank Sepah** – Bank Sepah is the fifth largest Iranian state-owned bank, designated in January 2007 for providing extensive financial services to Iranian entities responsible for developing missiles capable of carrying weapons of mass destruction. Bank Sepah was sanctioned by UNSCR 1747 in March that same year. Since at least 2000, Bank Sepah has also provided a variety of critical financial services to Iran's missile industry, arranging financing and processing dozens of multi-million dollar transactions for AIO, which has been designated by the U.S. for its role in overseeing all of Iran's missile industries. By cutting off Sepah from the U.S. and the international financial system, we have made it more difficult for Iran to finance some of its proliferation-related activities.
- **Bank Melli** – Bank Melli is Iran's largest bank and provides banking services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the UN for their involvement in those programs. Through its role as a financial conduit, Bank Melli has facilitated numerous purchases of sensitive materials for Iran's nuclear and missile programs. This includes handling transactions in recent months for Bank Sepah, Defense Industries Organization, and Shahid Hemmat Industrial Group. Following the designation of Bank Sepah under UNSCR 1747, Bank Melli took precautions not to identify Sepah in transactions. Entities owned or controlled by the IRGC or the Qods Force use Bank Melli for a variety of financial services. From 2002 to 2006, Bank Melli was used to send at least \$100 million to the Qods Force. When handling financial transactions on behalf of the IRGC, Bank Melli has employed

deceptive banking practices to obscure its involvement from the international banking system. For example, Bank Mellat has requested that its name be removed from financial transactions.

- **Bank Mellat** - Bank Mellat provides banking services in support of Iran's nuclear entities, namely the Atomic Energy Organization of Iran (AEOI) and Novin Energy Company. Both AEOI and Novin Energy have been designated by the United States under E.O. 13382 and by the UN Security Council under UNSCRs 1737 and 1747 respectively. Bank Mellat services and maintains AEOI accounts, mainly through AEOI's financial conduit, Novin Energy. Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program since at least 2003. Transfers from Bank Mellat to Iranian nuclear-related companies have occurred as recently as this year.

Executive Order 13224 - Targeting Entities that Commit, or Support Terrorism

The Treasury Department targets Iran's support for terrorism utilizing Executive Order 13224. This Executive Order, issued immediately after the September 11 attacks, allows Treasury to designate and block the assets of individuals and entities controlled by, acting on behalf of, or providing support to named terrorist organizations. This has the effect of freezing the target's assets that are held by U.S. persons and preventing U.S. persons from having any future dealings with them.

Using this terrorism authority, we have been able to expose Iran's terrorist support infrastructure. Two examples include:

- **Bank Saderat Iran** – In 2006, the Treasury Department initially took action against one of Iran's largest state-owned banks under the country sanctions program, cutting the bank from indirect access to the U.S. financial system revoking its authority to conduct U-turn transactions. In 2007, we intensified the action against Bank Saderat and officially designated it under E.O. 13224 as a supporter of terrorism.
 - Government of Iran uses Bank Saderat to transfer money to terrorist organizations, most notably Hizballah and Hamas. From 2001 to 2006, Bank Saderat transferred \$50 million from the Central Bank of Iran through its subsidiary in London to its branch in Beirut for the benefit of Hizballah fronts in Lebanon that support acts of violence.
- **Qods Force (IRGC Qods Force)** - The Qods Force, a branch of the IRGC, provides material support to the Taliban, Lebanese Hizballah, Hamas, Palestinian Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC).
 - The organization is the regime's primary instrument for providing lethal support to the Taliban. It provides weapons and financial support to the Taliban to support to anti-U.S. and anti-Coalition activity in Afghanistan. The Qods Force has also funded Hizballah with \$100 to \$200 million and has assisted Hizballah in rearming in violation of UN Security Council Resolution 1701.

B. Securing International Action

The effectiveness of targeted financial sanctions and other measures is significantly enhanced when other countries take similar actions. Accordingly, a significant part of the Treasury Department's efforts related to Iran has been devoted to a broader U.S. government campaign to facilitate international action against Iran's support of terrorism and nuclear program.

Facilitating International Action to Combat Iran's Support of Terrorism

The FATF is the premier standard-setting body for AML/CFT (anti-money laundering and combating financing of terrorism) and provides a unique opportunity for Treasury to engage our international counterparts regarding the risks posed by Iran's AML/CFT regime deficiencies. Treasury leads the U.S. delegation to the FATF. Taken as a whole, the FATF's AML/CFT standards are recognized by more than 175 countries and have been endorsed by the United Nations, the World Bank and the International Monetary Fund.

In addition to setting the AML/CFT international standards, the FATF also identifies jurisdictions with serious vulnerabilities in their AML/CFT framework. In early 2007, Iran was identified by FATF as having significant deficiencies in its AML/CFT regime. As a result, the FATF issued a public statement in October 2007 expressing its concern that Iran's lack of a comprehensive AML/CFT regime represents a significant vulnerability within the international financial system. Iran subsequently adopted an anti-money laundering law and met with FATF to discuss its legal framework for AML/CFT. The FATF, however, concluded that the deficiencies in Iran's AML/CFT regime warranted the issuance of another statement that reiterated previous concerns. The latest FATF advisory issued on February 2008, called on all members and non-members alike to advise their financial institutions about the risks posed by Iran's AML/CFT regime. In response many countries – including the UK, Canada, France, Germany, Japan and Malaysia – have advised their financial institutions of the risks inherent in doing business with Iran.

Treasury also issued such advisories to the U.S. financial sector following FATF's advisories, warning them of the general risks of Iranian business and providing specific information about areas of concern related to Iran, including Iran's deceptive financial conduct. The most recent Treasury advisory identified Iranian state-owned and private banks and their branches and subsidiaries abroad. Significantly, it also warned financial institutions about the conduct of the Central Bank of Iran, both in obscuring the true parties to transactions and facilitating transactions for sanctioned Iranian banks.

Facilitating International Action to Combat Iran's Nuclear Pursuits

The U.S. has worked within both the United Nations and the FATF to reinforce our targeted financial actions to counter Iran's proliferation activities. Indeed, the international community is working to establish a global framework that addresses the threats posed by Iran and develops effective financial measures. These efforts have focused on increasing multilateral implementation of both targeted financial measures and other financial prohibitions against entities involved in Iranian nuclear and missile proliferation. We have worked with the FATF to provide guidance on the effective implementation of those obligations.

(i) UN Obligations

The State Department has led important U.S. efforts at the UN in the adoption of three Chapter VII resolutions related to Iran's nuclear and missile programs that include significant financial components:

- **Targeted financial sanctions:** UN Security Council Resolution 1737, adopted December 23, 2006, requires the worldwide freezing of the assets of designated key actors associated with Iran's nuclear and missile programs. The Resolution targeted Iran's proliferation infrastructure, requiring all States to freeze the assets of identified individuals and entities and effectively deny them access to the international financial system. The adoption of the resolution and its successor resolution, 1747, also globalizes Treasury's action against Iran's proliferation infrastructure. Many of the individuals and entities identified in the UN Security Council resolutions were already publicly designated by Treasury and State under E.O. 13382.
- **Activity-based financial prohibitions:** UNSCR 1737 also requires states to prevent the provision to Iran of any financial assistance, or the transfer of any financial resources or services, related to the supply, sale, transfer, manufacture, or use of prohibited items associated with Iran's nuclear and missile programs. This measure effectively prohibits the provision of financial services that would allow Iran to procure the prohibited items needed for nuclear or missile programs. It places strong responsibilities on states to press financial institutions to make efforts to ensure they do not provide those financial services. This is a daunting task for financial institutions, and we have worked with the FATF to provide guidance that would assist financial institutions in this preventative effort.
- **Exercising vigilance over financial institutions' activities with Iranian banks:** With the most recent adoption of UNSCR 1803, the Security Council calls upon UN member states to exercise vigilance over the activities of financial institutions in their territories with all financial institutions domiciled in Iran, and their branches and subsidiaries abroad. This provision makes special mention of the risks posed by Bank Melli and Bank Saderat. This measure has critical importance to us, as it significantly reinforces the concerns Treasury has expressed for many months regarding some Iranian financial institutions' deceptive financial conduct and terrorism and proliferation support activities.

(ii) Working with the FATF to Implement UN Obligations

Treasury is working within the FATF to ensure effective implementation of the financial provisions contained in the UN Security Council resolutions. This guidance by the FATF works in conjunction with the UN's effort to develop international commitment and create a framework for countries to counter Iranian financial threat.

- In June 2007, the FATF issued initial guidance on the implementation of sanctions and finance-related provisions of UN Security Council resolutions related to proliferation activities in Iran, as well as the threat from other states and non-state actors.
- In September 2007, the FATF issued an annex intended to provide guidance on implementing targeted financial sanctions against financial institution, in particular, Bank Sepah, named in UNSCR 1747.

- In October 2007, FATF issued additional guidance on implementing activity-based financial sanctions identifying categories of high-risk customers and transactions on which financial institutions could focus their efforts. Risk factors include Iran-related customers or transactions, as well as transactions involving sectors that potentially produce the prohibited goods, among other factors.

UN Security Council Resolution 1803 welcomed the work of FATF and its efforts to provide guidance on how to implement targeted financial measure. Treasury will work with its counterparts within the FATF to continue these efforts.

C. Strategic Dialogue with the Private Sector

We have also reached out to another important stakeholder: the international private sector. Since 2006, we have conducted an unprecedented, high-level strategic dialogue with the international financial private sector, meeting with more than 40 banks worldwide to discuss the threat Iran poses to the international financial system. Secretary Paulson initiated this effort in the fall of 2006 in Singapore during the annual IMF/World Bank meetings. Secretary Paulson met with executives from major banks throughout Europe, the Middle East, and Asia and discussed the various threats posed by Iran. Deputy Secretary Kimmitt, Under Secretary Stuart Levey and Assistant Secretary Patrick O'Brien continue to engage with these institutions abroad, as well as in Washington and New York. Through this outreach, Treasury has shared information about Iran's deceptive financial behavior and raised awareness about the high financial and reputational risk associated with doing business with Iran and the international financial institutions have taken action.

Impact of U.S. Outreach Efforts to the Private Sector

International financial institutions have responded to our message with action that reinforces governmental pressure on Iran. As evidence of Iran's deceptive practices has mounted, financial institutions and other companies worldwide have begun to reevaluate their business relationships with Tehran. Many leading financial institutions have either scaled back dramatically or even terminated their Iran-related business entirely. Many global financial institutions have limited their exposure to Iranian business by cutting off Iranian business in dollars but have not yet done so in other currencies. Regardless of the currency, the core risk with Iranian business – that you cannot be certain that the party with whom you are dealing is not connected to some form of illicit activity – remains the same.

Importance of Private Sector and Targeted Financial Measure

The private sector plays a central role in the implementation of our sanctions. Our ability to effectively communicate with the private sector about Iran has been essential to the success of Treasury's broader efforts. The private sector has been receptive in part due to Treasury's targeted financial strategy that we have increasingly used to combat Iranian threats as well as other threats to the U.S.

When we use reliable financial intelligence to build conduct-based cases, it is much easier to achieve a multilateral alignment of interests. It is difficult for another government, even one that is not a close political ally, to oppose isolating actors who are demonstrably engaged in conduct

that threatens global security or humanitarian interests. The private sector also reacts positively to the use of these targeted measures. Rather than comply with just the letter of the law, we have seen many in the banking industry voluntarily go beyond their legal requirements because they do not want to handle illicit business.

The private sector and Treasury share a common interest in protecting the international financial system from illicit conduct. Financial institutions want to identify and avoid dangerous or risky customers who could harm their reputations and business. And we want to isolate those actors and prevent them from abusing the financial system. Once some in the private sector decide to cut off companies or individuals we have targeted, it becomes an even greater reputational risk for others not to follow, and they often do. Such voluntary implementation in turn makes it even more palatable for foreign governments to impose similar measures because their financial institutions have already given up the business, thus creating a mutually-reinforcing cycle of public and private action.

By partnering with the private sector, including by sharing information and concerns with financial institutions, we are increasingly seeing less of a tendency to work around sanctions. In meetings with bank officials abroad, Treasury officials have learned that even those institutions that are not formally bound to follow U.S. law pay close attention to our targeted actions and often adjust their business activities accordingly.

Conclusion

Financial measures are an integral component of U.S. and international efforts to counter Iran's threatening behavior. Through our authorities and our engagement with counterparts around the world, we are implementing a financial strategy that is having an impact. This impact will only be enhanced as the international community continues to crack down on Iran's illicit financial behavior through national action and through organizations such as the UN and FATF. The international financial system is becoming an increasingly challenging and unfriendly environment for Iran's illicit conduct. But it is important that we and our international partners keep up the pressure. This remains a top priority for the Treasury Department and we will continue to work closely with our colleagues in the State Department, foreign governments and international financial community to maximize the effectiveness of our efforts.

Thank you again for the opportunity to appear before you today. I look forward to any questions you have regarding my testimony.

Mr. ACKERMAN. Thank you, Mr. Glaser.

Ambassador Feltman, in your testimony, for which we thank you, you note we have been working with our friends in the international community to put pressure on Iran.

I recalled once—I will do it again—when I was young and misbehaving and my mother would warn me that my behavior was unacceptable, she would then lay down the law and tell me that I had better stop doing whatever it was I was doing by the time she counted to five. And the discussion went something like, “One, two, three.” Having no obvious effect on me, she went, “Three and a half, three and five-sixteenths, three and six-sixteenths.”

I was able to learn fractions pretty quick that way, into 64ths, as a matter of fact, figuring out that there was no limit to my mother’s patience. And if the question ever came up, stop that or what else, it would be: Wait till your father gets home. We seem to be almost, with regards to Iran, single-parenting Iran, single-parenting this situation.

What is the “or else”? We will tell the U.N.? I don’t understand the pressure. Working with our friends in the international community means what?

And I do acknowledge the work that Treasury and State has done with the banking sector to good measure, which has certainly been refreshingly useful and helpful.

But outside of that, such as the incident and sidestepping the whole thing such as Switzerland that I cited specifically, could you name one country, just one country, that we have sanctioned? Or one company, any one company on the entire planet Earth or any other planet you might want to think of—Pluto no longer counts—one company that has been sanctioned for dealing in contradiction of our laws?

Mr. FELTMAN. Mr. Chairman, in my remarks I mentioned the multilateral aspects, the working with our friends, the dual-strategy approach of working multilaterally both to offer incentives and to increase the pressure in order to try to persuade Iran to change its calculus.

And one reason why the administration has moved in this direction is after consultations with many Members of Congress, after seeing study after study that says, in order to get at the Iran problem effectively, you need to work multilaterally. The GAO report talked about the importance of multilateral sanctions and things like that.

So one reason why there has been such emphasis on the multilateral approach is because there seems to be broad recognition that working together will have a greater impact. And that is one reason why the P-5 plus 1 process, in our view, has been so important.

If we go back to 1½ to 2 years ago, I think the allegations of business as usual for Iran were probably more accurate than they are today. Since December 2006, we have had three Chapter VII Security Council resolutions. These have included sanctions on entities and individuals that are very close, that are a part of the heart of the Iranian regime. The World Bank has not made any new lending to Iran since 2005. The World Bank has just an-

nounced that they don't intend to do any more lending to Iran. The banks that have been mentioned are the major banks of Iran.

This is an excruciatingly time-consuming process. It is not always easy to work multilaterally. You mentioned in your opening remarks about the Iranians having to put up with the lectures from self-righteous European diplomats. I think all of us have had lots of lectures from self-righteous European diplomats on these sorts of issues.

But the point is, the P-5 process is still working. We have Russia, China, the other Security Council permanent members, and Germany inside this process that is looking at multilateral sanctions, autonomous sanctions within the EU, within the United States. All of these—

Mr. ACKERMAN. How does looking at sanctions change Iranian behavior?

Mr. FELTMAN. Our hope is that Iran's calculus will change.

Mr. ACKERMAN. I would respectfully suggest that we should give up on hope. Not give up on it in the abstract, but give up on it as a policy. Having a policy of hope is horse dung. You know, praise the Lord but pass the ammunition. Hope and prayer and having a faith-based administration and a faith-based foreign policy and a hopeful attitude that after 7½ years of this President, after 8 years of the previous President, after 4 years of the prior President, after 4 years of the President before that, going back to the Eisenhower administration that introduced nuclear to the Shah of Iran, hope is not a plan and prayer is not a blueprint.

I don't dislike either hope or prayer, but I want to know what we do while we are praying, because praying doesn't always give you the answer that you want. Because there are 1 billion other people who have prayers as well, but in addition to their prayers, they have a plan. And their plan is to have a nuclear bomb and, with that nuclear bomb, have an influence and an effect that we don't necessarily ascribe to.

Mr. FELTMAN. It not business as usual with Iran. The costs—

Mr. ACKERMAN. The chair will announce that everybody is welcome at our hearings. Everybody is entitled to an opinion. We would ask that people do not make hand signs or hold up signs. If you have something to say to anybody, send us a letter. If that persists, I will ask the Capitol Police to remove you from the room. It is the policy of the committee to tolerate no demonstrations within. And it is the policy of the Capitol Police to, in every case, place under arrest the person that is making the demonstration, whether we disagree or agree with them.

Please continue, Ambassador.

Mr. FELTMAN. Mr. Chairman, we believe that Iran is finding it increasingly difficult and expensive to do business internationally. Iran is increasingly isolated. Iran is having to spend more and more time to figure out how to do trading, financial transfers.

The sanctions are having an effect. The calculus hasn't changed yet, perhaps, but the pressure is rising. The international community remains united.

Mr. ACKERMAN. When you say the pressure is having an effect, does that mean that they have given up on their nuclear ambitions? Have any of the things we have asked taken place?

Mr. FELTMAN. We want them to get out of the nuclear business. We all have that goal. We all have that goal. Look at in the Security Council Resolution 1803, for example, that was passed in March.

Mr. ACKERMAN. You want me to look at?

Mr. FELTMAN. Resolution 1803, for example, calls on the international community to exercise increasing vigilance on all banks, not just the four that we mentioned, all banks that are domiciled in Iran. It prohibits the export to Iran of any dual-use nuclear technology under the control and puts this under the control of the Nuclear Suppliers Group.

There are increasing restrictions on Iran, increasing costs to Iran. This is a process that is ongoing.

Mr. ACKERMAN. I am sorry, my time—I have not run the meter on anybody; I am going to run it on myself. But I have taken a lot of time and not gotten an answer as to behavior in Iran that has been changed or one company or one country that has been sanctioned.

But I will turn now to Mr. Royce. Maybe he will have a greater success.

Mr. ROYCE. Thank you, Mr. Chairman. I appreciate it.

Last week there was a report in The Times of London. They had photos that they showed there. There were satellite photos of an Iranian missile site that, according to experts, was of similar size to the Taepodong long-range missile assembly facility that is in North Korea. And the report indicated that Iran was following the same path as North Korea, as they put it.

And there has been an agreement, I think, in the Intelligence Community for a while that Iran and North Korea have had cooperation on ballistic missile technology, but it becomes a bit murky when we try to assess this cooperation.

So I was going to ask, Is this a matter of observation or is it a matter of cooperation, Ambassador Feltman?

Mr. FELTMAN. We have seen the press reports that you mentioned as well, and we have had a longstanding concern about the Iranian-North Korean relationship and what it means in terms of missile technology and things like that.

I would suggest asking for a classified briefing with the Intelligence Community on this particular matter. All I can say—

Mr. ROYCE. I think we would like to know if it continues to this day. I think it would be a very important question, given our involvement right now in negotiations with Korea.

The State Department's position was we have long been concerned about North Korea's relationship in terms of assisting them in the proliferation of missile technology in a variety of different countries, including Iran. So I am trying to get some indication about whether there are signs of curtailment or whether this continues.

And if you are suggesting a classified briefing, I will go that route. But if you can tell me, Ambassador.

Mr. FELTMAN. This is a very real concern, what you bring up, Mr. Royce. And the Shahab-3 missile, 1,300-kilometer-range missile, very similar to what North Korea has, these are issues of real concern.

North Korea has certain international obligations and Iran has certain international obligations, but I would prefer that this subject be gone into more detail in a classified setting.

Mr. ROYCE. Very well.

Let me go to another point, and I am going to turn to Mr. Glaser.

And I have followed for a while the efforts to get the information out to the international community about the way in which Hezbollah and other terrorist organizations are funded and the consequences of this in terms of the decisions made in the international community.

But I was going to ask you about another aspect of this. And that is, you mentioned in your testimony the warnings issued by the Financial Action Task Force about Iran and its shortcomings in anti-money-laundering practices. And this seems to be an important step in internationalizing your efforts. So I was going to ask you to expand for a minute on the FATF's role and the impact on their statements.

Mr. GLASER. Mr. Royce, thank you very much for the question, because I do think you have touched upon quite an important issue.

The Financial Action Task Force is the premier international body for setting standards in the area of money laundering and terrorist financing and then working to ensure global compliance with those standards. And it does so in a number of ways.

With respect to Iran specifically, the FTAF and, frankly, the International Monetary Fund reviewed the laws that Iran has on the books or, frankly, the lack thereof, in terms of money laundering and terrorist financing. And FTAF took the quite unusual step this past October and then reaffirmed it again in March or this past February of issuing an advisory to all FTAF members, and then took even the more unusual step of expanding that advisory to the entire international community, to call upon countries around the world to advise their financial institutions of the very real risks that Iran presents in the area of money laundering and terrorist financing. As a result of that, as far as we know, over 40 countries around the world have issued advisories to their financial institutions.

This is part of our overall effort to create a dynamic between the private sector and governments, to spur governments to action, to spur the private sector to action, and then create a dynamic in which it is a self-sustaining process.

I think we have seen success in that, in terms of, as has been mentioned before, the fact that the leading financial institutions in the world and, in particular, in Europe are not doing business with Iran anymore. And they are not doing business because they understand the very real risks that they face.

I would also just add for Chairman Ackerman—and I certainly share the chairman's frustration in terms of being impatient to see as much success as we can. I think we all share the chairman's impatience. I do think it is important to note—and I certainly agree with Ambassador Feltman that multilateral efforts are the only way we are going to be successful in making our sanctions as effective as they can be.

That said, we are prepared to act unilaterally when we have the information and when it makes sense to do so, and we then see our actions multi-lateralized. We designated Bank Sepah unilaterally; it was then picked up by the United Nations, as an example.

And I will also just note that just this past March, March 2008, the Treasury Department did sanction Future Bank in Bahrain for being a joint venture with Bank Melli and Bank Saderat.

That might not be as big a target as the chairman has in mind, but I do think it demonstrates to the international community that when we have the information and when the time is right, we will take unilateral action. And I think it does nothing but add legitimacy and credibility to the efforts that we are undertaking.

Mr. ROYCE. Going to another question, Iran, of course, doesn't have the refining capacity—it doesn't have the money to put in to create the refining capacity they need for their own gasoline. And it still maintains a rationing system on gasoline to curb over consumption. And several months ago, after Iran announced the rationing of gasoline, we saw angry drivers stalled on the streets. They were setting fire to gas stations in Iran, in the capital.

And I think poor management of the economy there, the command and control—and we are familiar with the 50-some economists in Iran who wrote that letter to the President explaining to him that he was tanking the economy—but that has resulted in hyperinflation, it has resulted in high unemployment, over 20 percent.

And I was going to ask you, Assistant Secretary Glaser, what is the picture of the Iranian economy? Where have the vulnerabilities? And how do we produce the kind of change that eventually came to Eastern Europe?

Mr. GLASER. Thank you, Mr. Royce.

Again, I think you are absolutely right; the Iranian economy is doing very poorly. You mentioned the inflation. They are having a hard time finding foreign investment to engage in the types of products that they want and that they need. Their banking system is subject to increased international pressure. They have recently dismissed key economic ministers. So I think it is a fairly bleak picture for their economy.

The cause of that is difficult to disaggregate between the utter mismanagement of the Iranian economy by the Ahmadinejad regime and the financial pressure that we in the international community are placing on them.

There is still a lot that we can do. There are, as several Congressmen noted, there remain Iranian banks that have not been targeted by us, and there remain Iranian banks that have not been targeted by the international community. And we are certainly looking at all of those.

Mr. ROYCE. We encourage you to move on that front, on every banking institution that is involved in any way. I mentioned one in my opening statement that is involved in supporting terrorism. And to the extent that the international community can move on that front, it will be very, very helpful.

Thank you, Mr. Glaser.

Thank you, Mr. Chairman.

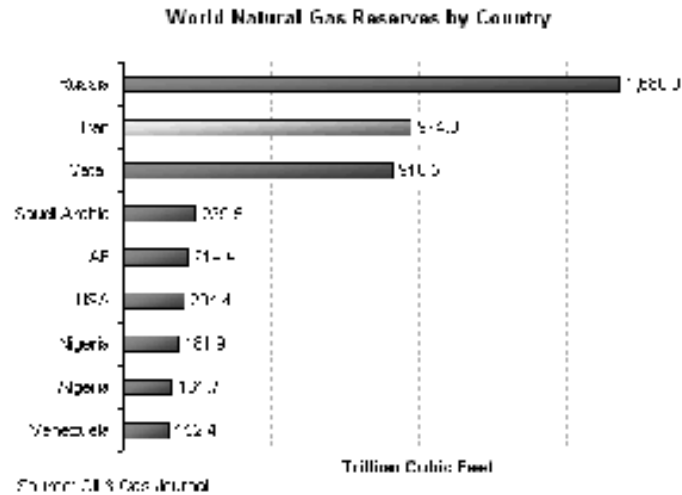
Mr. ACKERMAN. Chairman Sherman?

Mr. SHERMAN. Thank you.

Let me first ask unanimous consent to put in the record these two charts that I have off to the side.

Mr. ACKERMAN. Without objection.

[The information referred to follows:]



Iran flared approximately 12.732 billion cubic meters of natural gas in 2008. That is equivalent to 9,618 megawatts of capacity. The Bushehr nuclear power plant would have about 1,000 megawatts of capacity.

Foreign Investment in the Iranian Energy Sector

Date	Field	Companies	Value	Output Goal
Feb. 1999	Daroud (oil)	Totalfin EIT (France)/ENI (Italy)	\$1 billion	205,000 bpd
Apr-99	Bafal (oil)	Totalfin EIT/Bow Valley (Canada)/ENI	\$300 million	40,000 bpd
Nov. 1999	Soroush and Nowruz (oil)	Royal Dutch Shell	\$800 million	199,000 bpd
Apr-00	Anarim (oil)	Norsk Hydro (Norway)	?	?
Jan-00	Phase 4 and 5, South Pars (gas)	ENI	\$1.9 billion	2 billion cu ft/day
Mar-01	Caspian Sea oil exploration	GVA Consultants (Sweden)	\$225 million	?
Jan-01	Darrehvin (oil)	ENI	\$1 billion	160,000 bpd
May-02	Masjed-e-Soleymani (oil)	Sheer Energy (Canada)	\$80 million	25,000 bpd
Sept. 2002	Phase 9 and 10, South Pars (gas)	LG (South Korea)	\$1.6 billion	?
Oct. 2002	Phase 6, 7 & 8, South Pars (gas)	StatOil (Norway)	\$2.65 billion	3 billion cu ft/day
March, 2003	Khang Island (ethylene cracker)	Techup-Colesep (France)	\$222 million	?
May, 2003	Assalyeh (petrochemical: ethyl-benzene)	Daelim (South Korea)	\$600 million	645,000 ton/yr
Feb. 2004	Avadegan (oil)	Impex (Japan) 10% stake	\$4.45 billion	260,000 bpd
Apr. 2004	Assalyeh (Petrochemical: ammonia and urea)	Japanese consortium including Toyo Engineering Corp. and Chiyoda Corp.	\$220 million	670,000 tons/year
Aug-04	Tusan (oil)	Petrobras (Brazil)	\$34 million	?
Oct. 2004	Yadavarn (oil); deal includes gas purchases for 30 years	Sinopec (China) and ONGC (India)	\$70 billion (value of exploration not known)	300,000 bpd
March, 2005	Soveh (oil)	PTT Exploration and Production (Thailand)	\$5.4 million, but PTTET may invest up to \$59 million for further appraisals.	?
May, 2005	Khudabai (oil gas)	China National Petroleum Corporation (China)	\$18 million	?
July 2005	Big Blund 2 gas processing plant (Gas)	Consortium: UK, Constrain Oil, UK Gas and Process, Spain Dragados.	\$1.42 billion	?
July, 2005	Ethylene pent (petrochemical)	Consortium: South Korea Hyundai Engineering and Construction Co.; Linde (Germany)	\$1.3 billion	1.2 million ton/year
May-06	Abadan (oil)	German ABB Lummus	\$478 million	?
Jan-06	Gusar block (hydrocarbon exploration and development contract)	Sinopec (China)	\$19.6 million	?
Aug-06	Gusar Block (upgrading and adding gasoline refinery units)	Sinopec (China)	\$1.6 billion	?
Sept. 2006	Khorramabad (oil)	Norway, Norsk Hydro	\$49 million	?
Oct. 2006	Khang and Tadrigeas associated gas gathering & Natural Gas Liquids (NGL) recovery project. (Khang NGL project) (Natural Gas)	Italy, IRASCO s.r.l. subsidiary of Iran International Engineering Company (IRITEC)	\$1.6 billion	?

Nov. 2006 (Pending)	Development of Salibi (Qeshm 4) and Southern Gasah gas fields and the construction of a 3.4 mtpa LNG plant (Qeshm LNG) on Qeshm Island. (Natural gas)	Australia, Liquefied Natural Gas Limited (LNG Ltd)	This is a preliminary agreement, no details available. **Nonbinding Memorandum of Understanding (MOU)	?
Nov. 2006	Bandar Abbas oil refinery. (Oil refining)	German ABB Lummus	\$442 million	?
Dec. 2006	Development of the North Pars gas field for LNG Exports. (Natural Gas)	China, China National Offshore Oil Corporation (CNOOC)	\$1.6 billion -- **Nonbinding Memorandum of Understanding (MOU) -- Under negotiations.	?
Dec. 2006	Gasoline production unit at Tabriz refinery. (Oil refining)	China, Sinopec	\$ 144.7 million	?
Feb. 2007	Development of Phases 13 and 14 (Persian LNG). Shell (25%), Repsol (25%) (Natural Gas)	Netherlands, Shell, Spain, Repsol	\$4.3 billion -- **Nonbinding Contract? --Contract effectiveness is subject to Persian LNG final investment decision (FID).	?
Feb. 2007	Agreement on the construction of LNG and LPG storage tanks for the Iran LNG plant and the construction of port and dock facilities. (Natural Gas)	Korea, Daewoo	\$500 million	?
Mar. 2007	Upgrading the Isfahan oil refinery. (Oil refining)	Consortium: South Korea, Daewoo, German, Lurgi and UHDE	\$1.72 billion	?
Apr. 2007	Bandar Abbas condensate splitter. (Oil refining)	Indonesia, Star Petrogas	Approximate worth of contract at \$2 billion	?
Jul. 2007	Phase 22, 23, 24 -- South Pars (gas), plus agreement to transport Iranian gas to Europe (signed)	Turkish Petroleum Company (TPAO)	\$3 - \$4 billion	2 billion cu. ft/day
Sept. 2007	Construction of a petrochemicals plant in Iran, near South Pars gas field. Might produce rubber, plastics, other petroleum-derived products. (Announced Sept. 2007)	GAIL-India, Japan Industries Ltd. (India)	\$2.3 billion	?
Jan 08	Goldan and Fardows (offshore gas, includes downstream development)	SKS Ventures (Malaysia)	\$20 billion	100 million cu.ft/day
Pending	North Pars Gas Field (offshore gas)	China National Offshore Oil Co.	\$1.6 billion (includes gas purchases)	3.6 billion cu.ft/day
Pending	Phase 13 and 14 -- South Pars (gas); includes building a liquefied natural gas (LNG) terminal	Royal Dutch Shell and Repsol (Spain)	\$1.0 billion	?
Pending	Zavareh-Kashan (on onshore oil block in central Iran)	Sinopec (China)	\$1.3 million	?
Pending	Azadegan (oil)	Esar Oil (India)	?	?
Pending	Salibi and Southern Gasah (gas)	Liquefied Natural Gas Ltd, LUGL (Australia)	Capital Investments to exceed \$1.5 billion	?
Pending	Yadavarni (onshore oil)	Sinopec (China) & ONGC (India)	Potentially tens of billions of dollars	?
Pending	Garmar Block (oil)	Iran Oil Exploration Services Corp. (CNOOC) and Sinopec (China)	Estimated cost of exploring is \$20- \$38 million	?

Mr. SHERMAN. The first illustrates what I said earlier, and that is that Iran has enormous natural gas reserves, does not have the capacity to export them, produces natural gas as a byproduct of producing oil, and flares 10 times as much natural gas as it would take to generate all the electricity they are claiming that they want to generate out of the Bushehr reactor.

The second chart shows that both the last administration and this administration are violating Federal law by failing to at least name and shame the companies investing over \$20 million in the Iranian oil sector. That is to say, they are violating United States law to protect Tehran's business partners.

Mr. Glaser, the Financial Crimes Enforcement Network issued an advisory opinion to United States banks, specifically warning that the Central Bank of Iran was using an array of deceptive practices to hide the bank's involvement in nuclear proliferation and terrorist activities. The governor of that bank made it easier when he said on February 5th that he was proud that his bank assisted private Iranian and state-owned banks to "do their commitments regardless of the pressures on them." In effect, he has announced that his Central Bank is helping those other banks evade the various sanctions that you have applied.

Why would we have FinCEN issue a warning about the Central Bank of Iran and their involvement in terrorism proliferation and not designate that bank, pursuant to Executive Order 13224 or 13382, as dealing with terrorism and proliferation?

I will ask you to give a brief answer. I think I also have an answer.

Mr. GLASER. Okay. I will try to keep my answer brief.

I will tell you, Chairman Sherman, that we do share your concerns about the Central Bank of Iran. As you noted, they engage in deceptive financial practices. They try to strip names off of wire transactions. They assist designated banks conducting transactions. And, as we have also noted before, they work with Bank Saderat to funnel money to Hezbollah.

Mr. SHERMAN. You are repeating my question. I want the answer to the question. Why haven't you designated them?

Mr. GLASER. Well, the simple answer is that we are in the middle of a campaign to apply financial pressure to Iran. The United States, through that FinCEN advisory that you are talking about, which came out very recently, is the first time the United States or anyone in the world has made a formal statement about the Central Bank of Iran, and I think it is very important that we did that.

It is also important that we—taking action against the Central Bank is an extraordinary step. It is certainly was something that is within our toolbox. But I think it is also important that we work with our partners around the world to ensure that, when we do take steps—

Mr. SHERMAN. I think you have given us your answer.

Ambassador, you have said that our current campaign is working. It is obviously not working to change Iran's policy. The centrifuges are turning. It is working to get the press and the public off the backs of the administration and to fool them, and to even

fool them to the point where we get answers like those given by your colleague.

Clearly, at some point, the Central Bank of Iran will be designated. We will dribble out these little tiny sanctions each time it is necessary, politically, to prevent any significant action. And so I am sure that we will eventually do the right thing with regard to the Central Bank, but as long as we put about 6 months or a year in between each tiny action we take, we can avoid taking any significant action until Iran tests a nuclear bomb.

Now, I said in my opening remarks that I hypothesized that the Bush administration has been seized by extremists in the defense of corporate liberty.

Ambassador, what is the biggest example you can give me of when the Bush administration voluntarily inconvenienced, really put a crimp in the style of any multinational corporation in an effort to deal with the Iran problem? Can you name any that go beyond just begging the corporation to change its policies?

Mr. FELTMAN. Mr. Chairman, I will get back to you after I talk to my colleagues in the Economic Bureau about that. I don't have a ready answer for you.

Mr. SHERMAN. I assure you, I have asked everyone at the State Department and, oh, by the way, in my opening statement everyone in this room, to identify any circumstances where the Bush administration had voluntarily inconvenienced a multinational corporation to protect our security, and so far we are at zero for as an answer.

Now, there are five bills that have been introduced in Congress: H.R. 957 from Ileana Ros-Lehtinen to apply the Iran Sanctions Act sanctions to financiers, et cetera; H.R. 1357, requiring Federal divestment; H.R. 1400, Chairman Lantos' bill, may he rest in peace, known as the Iran Counter-Proliferation Act; H.R. 2347, Congressman Frank's bill, the Iran Sanctions Enabling Act; and, finally, H.R. 2880, Mark Kirk's bill adding refined petroleum to the triggers for the Iran Sanctions Act.

Ambassador, can you name any of those bills which the administration either supports or is neutral about?

Mr. FELTMAN. Mr. Chairman, I know you have——

Mr. SHERMAN. That is a yes-or-no question.

Mr. FELTMAN. You had an exchange with the Secretary of State on these sorts of issues a few weeks ago. The Secretary of State made it clear she is not afraid of using sanctions. She doesn't hesitate.

Mr. SHERMAN. Sir, I asked you a yes-or-no question. I have very limited time here. Does the State Department support or take a neutral position on any of the five pieces of legislation I identified?

Mr. FELTMAN. I am not familiar with all five, sir.

Mr. SHERMAN. As to any that you are familiar with?

Mr. FELTMAN. Our policy is trying to use flexibility and firmness together to try to change Iran's calculus on its nuclear thinking. I am sorry I do not have the details on the legislation for you.

Mr. SHERMAN. I will ask you to respond for the record as to the five pieces of legislation.

Just for your information—I thought you would be involved in these bills since they affect Iran—the State Department is working

to undermine and prevent the passage of each of these pieces of legislation, as far as I can tell, sometimes officially, sometimes unofficially.

To have all this talk about Iran and then to have the administration oppose every action and never take any action that inconveniences a multinational corporation is reflective of a duplicitous policy.

I should point out that this is not the first administration. Let's turn to the Iran Sanctions Act. The charts are there showing over 40 investments that should have triggered that Act. Some go back to the prior administration.

We have a law that requires, at a minimum, the administration to identify, name and shame the companies involved. To not take that action is to violate American law to protect Iran and its business partners.

Without telling me how wonderful you think your current sanctions are, can you tell me why the State Department has not even identified any of these transactions?

Mr. FELTMAN. What I will say, Mr. Chairman, is there is lots of information that is under review right now, much of which you have provided to the State Department. But the offices involved are reviewing a lot of information in some of—

Mr. SHERMAN. Some of these transactions go back to the Clinton administration. It is not my job to be the intelligence officer. These were provided chiefly by the Congressional Research Service. This is not because I have spies in the board rooms of European oil companies. This is information that you have known about before I did, you have known about for a decade. And the State Department, under both administrations, has decided to commit the illegal act of refusing to take even the minimum steps required by law.

I think my time has expired. My patience has expired.

Mr. ACKERMAN. If the gentleman would yield 30 seconds.

Mr. SHERMAN. I yield all my remaining time.

Mr. ACKERMAN. Let me just piggyback on what you said, Mr. Chairman, in further response to Mr. Glaser's comment to the question of another member, that he could appreciate the chair's impatience. It is basically not impatience. It is more of a frustration that the administration seems to have a deficit of impatience.

You seem to be acting, and I know it is not the case, but acting as if you believed that time is not running out, that you had all the time in the world. The answer to the questions by the Ambassador: "We are going to look into it, we are going to check, we are not sure," not being able to come up with answers, and yet when there are legitimate legislative proposals, some of which are great, some of which are lousy, some of which are in between, that the only response by the administration is they don't want any meddling or interference with this highly active process that is in the purview of the administration and nobody else should be involved.

Maybe one of us or one of them or one of someone will have an idea that somebody might want to latch onto. But some of us being accused of being impatient realize that there is an impending disaster. There is an on-rushing train, and you do not have all the time in the world, but you do know what time you all are getting off the tracks. That will be a problem then for the rest of us, who-

ever that President, Congress, administration, or set of our children and grandchildren, if the planet goes that far, will be.

Some of us being accused of running out of patience want to avoid that disaster. No good will come of Iran's developing a nuclear weapon. Patience is a commodity whose value is in the fact that at one point it has to expire. You all have to come to a conclusion that there are deadlines here, whether it is counting to five or waiting out the 2 years or so and not coming up with an action plan and saying, "We are making progress, because we are thinking about it," when no evidence is there at all that progress is being made, because you measure progress in altered behavior. If behavior doesn't change, there are intolerable consequences that we all are going to face.

So I think what you are hearing here is more frustration than impatience. We are all on those tracks. The world is facing an impending disaster. We don't really believe you are going to get back to us. How is that? We like you. You are nice. You are hard-working. You are well-intentioned, your predecessor and your predecessor's predecessor and your predecessor's predecessor, and to my colleagues across the aisle, throughout administrations have not gotten back to us. We are more than peeved because the stakes are growing higher. So don't take us lightly. We are not the enemy. We are just getting pissed.

Mr. SHERMAN. Mr. Chairman, reclaiming my time.

I have been told orally by the State Department, "We are not going to do anything, and you can't make us." I think that pretty well indicates the status as to the situation.

And I yield back.

Mr. ACKERMAN. We shall move on.

I believe Mr. Wexler was here first.

Mr. WEXLER. Thank you very much, Mr. Chairman.

I would like to ask Secretary Feltman, if I could, first about a specific case, very troubling case of Mr. Robert Levinson, who is a constituent of mine who lives in Coral Springs, Florida, who disappeared from Kish Island, Iran, more than a year ago, on March 9, 2007.

As I know, you are aware, despite attempts to track down Mr. Levinson, there is scant evidence which has surfaced regarding his whereabouts. His family and those that care deeply about him have become extremely anxious with respect to his safety and health, as you can imagine.

Mr. Levinson is a true patriot, a former FBI agent. His family has traveled to Iran, his wife, and others, where they received the assistance of Swiss officials in Tehran. They visited the hotel where Mr. Levinson was last seen. They passed out flyers in Farsi with pictures and photos of Mr. Levinson. They met with local Iranian authorities to ask their assistance. But the Iranian authorities have essentially said they know nothing and have not been particularly helpful.

I was wondering, in that context, if you could provide an update in terms of, What is the situation with Mr. Levinson as far as we know and what is it the State Department is doing on his behalf?

Mr. FELTMAN. Congressman, thank you for raising what is a very, very painful, difficult case. In fact, this morning as I was pre-

paring for this hearing I learned that, in fact, you have just sent a letter to the State Department as well. So we will be responding to you formally by letter as well.

But I am glad you raised the case today. I met with Christine Levinson, Mrs. Levinson, and her sister, other family members on March 6, just over a month ago. We stayed in contact. The Department and the FBI have stayed in contact with the Levinson family ever since the disappearance of Mr. Levinson in March of last year.

We have used a variety of channels to ask the Iranians to investigate this. Formally, we have sent diplomatic messages through the Swiss. The most recent one was on March 28. Communication back from Iran I would characterize as not very satisfying. They last sent us a message on this on January 1, and basically said they have no idea what happened to Mr. Levinson after he disappeared from the hotel on Kish Island in March 2007. We don't find this a very credible answer. Iranians also promised the Levinson family when they visited Kish Island in December, they promised them to investigate. So we have asked the Iranians, we call on the Iranians to share the results of the investigation with the Levinson family.

I assure you, Mr. Wexler, this is a case that we are following continually. We will keep in touch with the family, share any developments, share any leads, compare notes with them about how to get to this. But the Iranians need to share the results of any investigation with the Levinson family and respond credibly to our requests for information.

Mr. WEXLER. I appreciate your response. I would urge you to use every tool at your disposal to push this matter as vigorously as possible. Obviously this has lasted for more than a year. If I could broaden my questioning, if I may, I would like first to associate myself with the remarks of the chairman, Mr. Ackerman, and the chairman, Mr. Sherman, and would like to ask you a question maybe from a bit of a different perspective.

I couldn't agree more with Mr. Ackerman in terms of his characterization of the scenario that we face, which we are facing a pending nuclear disaster. I would ask you this. Seems to me the legacy of the Bush administration on Iran is fairly simple. President Bush will leave office; Iran will be a stronger nation than when he took office. Iran will be far closer to becoming a nuclear power than it was when Mr. Bush took office, and Iran, unfortunately, plays a much more prominent role in supporting the financial terror network in the region and throughout the world than it did, even as troubling as it was, before Mr. Bush took office.

So, on almost any litmus test with respect to Iran, the Bush administration, in my view, has been an utter failure. I recognize the progress that you have talked about in terms of the financial sanctions, and I applaud those efforts. Although in the context of the threat that we are facing, it is still a somewhat limited accomplishment.

My question would be this. Mr. Glaser, you talk about create a dynamic in which leading world institutions do not do business with Iran. Ambassador Feltman talks about a policy of flexibility and firmness. If I understand it correctly, we have engaged at very high diplomatic levels directly with Iran on two issues, Iran's in-

v involvement in Iraq and Iran's involvement in Afghanistan. But this administration still refuses to engage with Iran on the two most pressing issues in terms of threatening nuclear capacity. We do not engage with Iran on the issue of their nuclear proliferation, and we do not engage directly with Iran on the issue of their support for financial terror networks.

In the context of creating a dynamic, we have witnessed 7 years of the Bush administration's policy of non-engagement, diplomatic or otherwise, with Iran with respect to their nuclear program, and we see the result. Iran is closer, too close, to becoming a nuclear power. With respect to their support for terror, the Bush administration policy has not prevented their support. It has not reduced it, has not minimized it. The result, unfortunately, has been an increased financial support.

So the question is: To create the dynamic, wouldn't it be wise at this point to engage Iran with a system of carrots and sticks on the very issue that we are talking about here, the very issue that threatens America, Israel and our allies the most, and that is the nuclear proliferation ambitions of Iran, or are we going to continue to keep the same path, continue the same behavior, and expect a different result, which I think many people define as insanity?

Please.

Mr. FELTMAN. Congressman, thank you for the question and the way you framed the question because in fact you put it more eloquently than I did. This is what we are trying to do. The choice for dialogue is Iran's choice. We have made the offer. We have made the offer on the basis, as you have described; we have both unilaterally, in Secretary Rice's offer almost 2 years ago, as well as the P5 plus 1 multilaterally.

What we have said to Iran is, Live up to your international obligations. These are not simply U.S. concerns. These are not simply U.S. obligations. Live up to your IAEA, your Security Council obligations in terms of proliferation-sensitive activities. Suspend enrichment now. We will talk tomorrow. We will talk about anything. But we will also provide assurances on nuclear fuel supply for a verifiable civil peaceful nuclear program.

The scenario that you have described in fact is the scenario that has been proposed to the Iranians, and it is the Iranians who have said no. So we have offered a dialogue along those terms, and the Iranians have not said yes because the Iranians have not suspended the enrichment that is required by the Security Council and by the IAEA.

Mr. WEXLER. Mr. Chairman, may I have 35, 40 seconds more, if I may?

Mr. ACKERMAN. You may.

Mr. WEXLER. Thank you.

I would accept that answer except for one factual problem. The factual problem is that, 6 or 7 weeks after we invaded Iraq, we now know that the Iranians sent an offer to then Secretary of State Powell offering to discuss their nuclear program, offering to discuss their financial support for terror, and we know that Vice President Cheney crunched up the offer after it was authenticated by our State Department as being deemed approved by the highest authorities in Iran, and he chucked up that offer, threw it in the

wastepaper basket and said, "Our policy is regime change and regime change only."

So now Secretary of State Rice, with all due respect, hides behind a policy that failed 7 weeks after the Iraq war. We blew an opportunity then. And now we find ourselves with an Iran on the brink of becoming a nuclear power. And yet we continue the same policy.

Thank you, Mr. Chairman.

Mr. ACKERMAN. Mr. Carnahan.

Mr. CARNAHAN. Thank you, Mr. Chairman.

Thank you, gentlemen, for being here.

Back last November, we had a briefing, some of us from the committee, from a member of Parliament, Mike Gapes, who is chairman of the House of Commons Foreign Affairs Committee. He had led a delegation to Iran to meet with some of their officials, talk about relations with the West, and especially express concerns about their nuclear program.

Some of these observations I wanted to ask you about. He thought there was some great potential for change in Iran, especially with their very young society. The majority of their population was less than 30 years old, had no memory of the United States Embassy incident in the late 1970s, early 1980s; the growing drug problems, especially emanating from Afghanistan, and opportunities for the West to be engaged in those efforts; and that their power structure there was very restrictive at the top but more pluralistic below and a lot of competing power centers, and thought they were opportunities to engage in some dialogue there.

I would like to have your assessment of opportunities for dialogue and change with regard, in the context of Chairman Gapes' observations from that visit.

Mr. FELTMAN. Thank you, Mr. Carnahan.

This is a part of the United States policy toward Iran we haven't talked about much today, which is our hope to engage directly with the Iranian people, just as Chairman Gapes told you when you saw him last November. We agree that there are opportunities here. And in fact, with the appropriations from Congress, we have been able to do things like increase broadcasting into Iran. So Voice of America is now broadcasting 24 hours a day in Persian, with an increase of original Persian broadcasting from 2 hours a day to 8 hours a day. Radio Farda, which is aimed at a young audience, with music and things like that, Radio Farda has been able to improve the broadcasting into Iran because of support from the Congress. We have also renewed exchange programs with Iranians for the first time since 1979. So we are looking for these opportunities as described to you by Chairman Gapes. We agree there are opportunities.

Mr. CARNAHAN. What about cooperation with the drug trade emanating out of Afghanistan?

Mr. FELTMAN. There may be opportunities there as well because we certainly have a deep concern about the drug problem out of Afghanistan. Our bigger concern in Afghanistan right now, frankly, is that the IRGC, the sort of, the terrorist outreach group of Iran, is working with the Taliban and shipping weapons in violation of various Security Council regulations into Iraq, into Afghanistan. So

our concern on Afghanistan right now with Iran is different than the drug problem.

Mr. CARNAHAN. I wanted to ask also about the National Intelligence Estimate that was issued in November of last year, stating that Iran suspended work on weaponization in 2003. Is that still the position of the State Department?

Mr. FELTMAN. I would have to defer to the Intelligence Community on this, but I think the National Intelligence Estimate is also clear that they could start the weaponization up at any time and that some of the long-term infrastructure things, like enrichment, they were still committed to doing.

So I wouldn't want to be complacent by some of the press reports that came out after the NIE. The findings in the NIE were still very stark and of great concern and has helped us continue this international coalition that we talked about in terms of trying to restrain Iran's nuclear ambitions.

Mr. CARNAHAN. Finally, I want to ask about China and their recently providing the IAEA with intelligence on Iran. Does this, you believe, signal a shift in their willingness to cooperate?

Mr. FELTMAN. China is part of the P5 plus 1, and China has voted for all three of these Chapter 7 resolutions we talked about, 1737, 1747, and now 1803. China has to be part of the multilateral effort to help persuade Iran to change its calculus. And so far, China is part of this international consensus. It is not an easy process that we have talked. But China is part of the international consensus.

Mr. CARNAHAN. Thank you, gentlemen.

Mr. SHERMAN. [presiding.] Mr. Scott.

Mr. SCOTT. Thank you. Last week, when General Petraeus and Ambassador Crocker came before our full Foreign Affairs Committee and we asked them the question specifically if they were preparing for it, the administration was preparing for a possible shift in policy with the anticipation of the upcoming Presidential elections. Much has been mentioned about time. We are at a very critical point. We are at a very crucial point because we know the Presidential elections are before us, and surely, as we know it, the world knows it, we have got some significant decisions to make here.

In the face of all of this, we have a 2007 National Intelligence Estimate that comes out and reverses almost everything we have been talking about. What is the whole point? What validity does the sincerity and the seriousness of economic sanctions carry with other nations when we have used the whole pretense that they are moving toward acquiring nuclear weapons and then we come out with a National Intelligence Estimate that says, no, that is not true? They stopped that in 2003. What in the world? What kind of message. How stupid is this administration looking to the world. Then you expect other countries to take us seriously.

Well, when I asked that question of General Petraeus and Ambassador Crocker, they said, "Well, no, we only serve one boss at a time." Well, they may have that luxury, but I don't, nor do Members of Congress. I serve about 500,000 or 600,000 bosses. Collectively, as a Foreign Affairs Committee, we represent about 300 million bosses. And these bosses are growing very, very impatient.

Now we have got an election coming up. We have got to change policy. We need to have and send a clear message to the world: What in the world are we going to do with Iran? Iran is the elephant in the room of China, of Russia, the United States, of everybody in the world. They are the apex of everybody's concern because if they get a nuclear weapon, a cascade rolls. A cascade of events. Because then Egypt and Saudi Arabia get nervous. They have got to have one. If they get one, Turkey has got to have one.

Iran is so unique. It is Muslim. It is Islamist. But it is not Arab. It is Persian. We have the shift from Sunni to Shia and Shia to Sunni. So this is very, very critical. This is a very, very critical situation.

I guess what I am saying here, is that how realistic, what are you saying? And I understand your answer in reference to the National Intelligence Estimate was rather muddled. What is the point of that? How could the administration not know what the estimate was in 2003, and for 4 long years, we carried on a policy that was based just to the opposite of that? How do you explain that?

Why don't we have contingency plans in place? You are going to be certainly in your positions for 6, 7 more months. We are going to have a new administration. The American people have already spoken. We have got to have a new direction, a new policy. What we have got to do as Members of Congress and members of this administration, we have got to put all these differences aside. We have got to get some honest dialogue going between this branch of government and the executive branch of government to get all our information together. Because I tell you the other thing; if this country continues to lose the credibility that we once had, then you have got people going to their own means.

I guess my question, as I get around to it, is within this policy, I want to get a clear understanding of what is the assessment. Are they getting nuclear weapons? What is the intelligence saying? I sat on the NATO parliamentary assembly and everybody is up in arms about building this missile defense system in Eastern Europe. For what? To stop Iran in the case of nuclear weapons. But yet we have an estimate here that says they are not having nuclear weapons. So you have got Russia up in arms: What is the point? Why are you building this thing next to us? Are you coming after us?

So I think there is a lot of mixed signals that are going forward. I think we do need a shift in policy. It needs to be direct. Then we need to seriously consider about the military option. Is there a need to have that military option on the table dealing with Iran? Do we weaken ourselves when it is not? I am not advocating any preemptive war, as we did in Iraq, or anything else. I am saying the rest of the world is looking to the United States to set the curve on this, and gentlemen, we are falling mighty, mighty, mighty short.

So my pointed question is this: How serious? What is the situation in Iran and their ability for nuclear weapons today? How much credibility is there still in this report from the National Intelligence Estimate? Do we believe that, or where are they in their nuclear capacity? Thirdly, what about that military option? Is it there? Is it not there? If you could address those three points for me, please.

Mr. FELTMAN. Congressman Scott, thank you. Iran has never come clean on what it is doing or has done in terms of weapon-

ization. That is the basic issue. The international community can have no confidence when Iran states that it is establishing a peaceful civil nuclear energy capacity like any other country would have the right to have. None of us can have confidence that those statements are true, without IAEA verification, without a credible statement from Iran on what it has done in the past and what its program is about now.

The National Intelligence Estimate that you referred to from December made it clear that Iran did have a weaponization program. Iran has never come clean with that information. Iran has never answered the International Atomic Energy Agency's questions about the weaponization program that preceded 2003, 2002. So how now can we have any confidence in what Iran says today?

The National Intelligence Estimate also made clear that there were other parts of the Iranian nuclear program that were continuing at pace. So weaponization could start again at any time, and perhaps already has started. None of us can be complacent about what it is that Iran is up to because none of us really know what Iran is up to because Iran has never shared the information, as Iran is required to do so under its international obligations.

Mr. SHERMAN. Mr. Scott, I believe your time is up.

Mr. SCOTT. Could I ask one, take 10 seconds on this?

Mr. SHERMAN. Ask a 10-second question for the record.

Mr. SCOTT. The 10-second is, your points are very well taken, which begs the point of why it is a part of the current United States policy not to even talk with Iran about its nuclear program. I don't understand that.

Mr. SHERMAN. I thank the gentleman for his question. We look forward to an answer for the record.

We now call upon the gentleman from California.

Mr. COSTA. Thank you very much, Mr. Chairman. I would like to—we have talked a lot about the sanctions issues. I would like to turn it in a different perspective. In terms of the international and the United States sanctions imposed to Iran to date, would either one of you care to comment briefly as to any observable change or effect it has had on the Iranian decision-making process?

Mr. GLASER. It is certainly an important question. As I said in my opening statement, I think when we look at the financial pressure we are trying to bring to bear on Iran, we all understand that this is one component of what needs to be—

Mr. COSTA. I understand that. It is a simple question: Is there any observable change in the decision-making process among the leadership in Iran and the sanctions? I mean, you don't need to restate the question. Yes or no?

Mr. GLASER. I think there has been an observable—

Mr. COSTA. Mr. Ambassador, would you like to respond?

Mr. FELTMAN. Yes, we think there has been insufficient so far.

Mr. COSTA. What is the evidence that you would cite on the observable change in the decision-making process?

Mr. FELTMAN. Things like how the banking system is working, how they are trying to find other channels, things like that. They have been off balance. It is as not sufficient yet, I agree.

Mr. COSTA. Well, on that point, then, if they are now exploring other channels, wouldn't that suggest that we explore other chan-

nels as well? I mean, if you look at the evidence that has been provided thus far, and you look at what in what my interpretation is somewhat of a sieve that has taken place, i.e., the sanctions, because there are a lot of folks that just aren't participating, or there are a lot of things that are just going under the table, I would suggest that, it seems to me that they are not having the impact they ought to be having.

Let me ask you this question: The meetings last week with the Group of Six took place in Shanghai; is that not correct? What progress was made on that point? Can you respond quickly because I have a couple of more questions?

Mr. FELTMAN. Basically, the political ministers of the P5 plus 1 reaffirmed this dual-strategy approach. Try to offer Iran a strategic choice, using carrots and sticks. It was basically a renewal——

Mr. COSTA. I understand what they did, but what was the outcome of the meeting?

Mr. FELTMAN. I would say that the outcome of the meeting was that this international commitment to dissuading Iran remains strong, and we are all waiting for the June 3 IAEA report.

Mr. COSTA. Anything to add to that, Mr. Glaser?

Mr. GLASER. No, certainly not on that question.

Mr. COSTA. That is fine. Let me pose another thought, and that is, you know, under the category of what is working and what is not working. It is my understanding that Saudi Arabia has greater trade by a large amount than Iran does with China. Saudi Arabia has much more economic activity going back and forth with China than does Iran and China.

It seems to me that, with our influence with Saudi Arabia and China, that we ought to maybe develop another alternative, i.e., thinking out of the box with Russia and with others, that we would be willing to reconsider some of the issues in terms of direct communication with Iran for a verifiable agreement that there would be no more expansion or development of nuclear weapons and their other missile capability. I mean, it would have to be, we would have to have some of our other partners come together on this.

But it just seems to me if you say they are exploring other channels and you think that has been part of the effect of the sanctions that I think have had a limited impact, then maybe this is the time to change the strategy, to really force them to come up with an option where they can have an opportunity to make a deal or not.

Mr. Ambassador.

Mr. FELTMAN. I think the Iranians have been presented with a deal, suspended enrichment, and you have got all these incentives; we will work with you in a variety of different ways. The Iranians so far have not made that strategic choice that we all want them to make. We are all trying to find the right formula, the right combination of pressure and nonpressure, and all options remain on the table to try to help persuade Iran to move in this direction to make the right strategic choice. It is not an easy process.

Mr. COSTA. We understand.

Mr. FELTMAN. As this hearing today has made clear, the testimony today has made clear, I am somewhat skeptical of some of the press releases that come out of Iran. Iran is trying to project to the world that it really is business as usual. Then we find out

in fact some of these things haven't happened. Iran announces that the China National Offshore Oil Company has made some deal. Then nothing ever happens.

We listen to Ahmadinejad's offensive comments about 9/11 or about Israel, but somehow we take his comments about centrifuges as though these must be credible, even though his stuff on 9/11 and Israel is not credible. I note a Reuters report today from Mohamed ElBaradei, the head of IAEA, who said Iran's centrifuges are working well below capacity, which is good news so far.

I think we are having an impact. Iran hasn't made that choice we want them to make, that Iran must make. But I believe the combination of the unilateral things that we are doing, the multilateral things we are doing, the work with the Arabs on their own security requirement, on what we are doing to try to reach the Iranian people together, directly talking to the Iranian people through exchange programs, through broadcasting. Our work with the IAEA is important in this regard.

I think all of these things together are having an impact. It is not sufficient yet. But this is an incremental process.

Mr. COSTA. Well, I have other questions, but my time has expired.

Thank you very much, Mr. Chairman.

Mr. SHERMAN. Ms. Jackson Lee.

Ms. JACKSON LEE. Let me thank the gentlemen for their presence here today. I realize that any delays by members are overlapping meetings and presence on the floor.

For as hard work that you have to do, I want to start out by thanking you and Secretary Rice for I certainly believe that the State Department and diplomacy, along with the work that the Treasury Department does on these issues is a vital complement to times when there is no other option but to engage in a war.

I happen to think that we have done the American people a disservice, and I might read a headline that is comprised of a number of articles. But it reads, "With a Political Surge, Bush Ducks Hard Choice." The byline is, "Ending the Iraq war will be next President's problem."

What it says is that it could be solved by this administration, but there are choices that the administration has made. From my perspective, and you are good public servants, that the administration has selected a war strategy.

I would just chronicle for my colleagues and for the witnesses, and I will have one simple yes-or-no answer at the end, is that a fledgling democracy, as we were, with commitment and dedication can fain off an economic and military giant. We did that, the Revolutionary War, against England. I don't know why we think that we can win against what seems to be small and fractured nations.

So I ask the witnesses whether they looked at Iran in this manner. I heard this discussion earlier this morning, and I have sort of soaked it in and find it to be very reasonable. One, Iran has a very poor economy. It is in a mess. The government is poor. The President is not the most stellar leader. Frankly, if you pierce the structure of government, which is something I was aware of even before the discussion this morning, the mullahs are really in

charge. They can overturn Presidential action. They can overturn parliamentary action. So they have the real power.

Has anyone attempted to sit down with this cautious body of religious leaders to negotiate with them from a position of force? We are a nuclear power. Has anyone suggested that Russia has a stake in ensuring that Iran does not become a nuclear power and therefore coordinating with Russia to put pressure? There is nothing wrong with negotiation through pressure, through using the stick. But I think there has to be an enormous caution about even throwing down the attack mode. Yes, we have the capacity to do it.

They are reading everything that is going on in this hearing and everything we say publicly and also we say in a classified manner. So nothing we say is in secret. The constant battering of a military threat reminds me of the saber being rattled but to no avail.

I think it is important to note that Iran is not Iraq. To try and occupy Iran would be an impossible task. It has a massive army. The army is ready to go. It is a guerilla type army. So I think we are fooling ourselves when we suggest that that is the army we would like to take.

It doesn't say it is not an option. I am as concerned with a safe Middle East, protection of Israel, but I think we have been on the wrong track from the time we decided to hand over the authority of war, if you will, as interpreted by this administration in 2002. We were right after 9/11. We were wrong in the fall of 2002, and we continue to be wrong.

My question then to you, gentlemen, if I have given at least a limited analysis that may have some glimmer of correctness, the mullahs, the economic mess that we are in, and the fact that the Iranian people, many of them have exhibited their frustration with their own government, why are we not using the long, strong arm of negotiation? Why are we not, at the level that you are at, the level of the number of secretaries that we have in the State Department, why are we not in the long hard arm of negotiation?

My question to you is: Will this Government, this administration, before January 20, mid-day and the swearing in of a new President, have the capacity to alter its thinking and even begin discussions? And I guess I don't want to hear, "We have begun them." Begin discussions at a reasonable level that suggests the structure that I have just said, the mullahs and others.

Mr. SHERMAN. The time of the gentlelady has expired.

Ms. JACKSON LEE. Can I get them to answer yes or no, please?

Mr. SHERMAN. I will give the Ambassador 30 seconds to respond, or hopefully a yes or no would be better, and any additional response can be furnished for the record.

Ms. JACKSON LEE. I thank the chairman.

Mr. FELTMAN. Yes, we are committed to a diplomatic negotiated solution to this problem. That is the yes answer.

Ms. JACKSON LEE. Will you do it before you get out of office?

Mr. FELTMAN. There are talks, as we have seen, in Iraq, tripartite talks. They have not been promising. We are committed to a negotiated solution to this problem. But there must be a solution to this problem. That is the basic issue. There must be a solution.

Ms. JACKSON LEE. Are you talking about Iran?

Mr. FELTMAN. Iran, yes.

Ms. JACKSON LEE. I thank you, Mr. Chairman.

Mr. SHERMAN. I would quickly point out that even those that are talking about any military action, I am not amongst them, talk about an effort to destroy nuclear facilities perhaps by air force action. I don't know anybody who is talking about the idea of invading, occupying, and remaking Iran. The gentlelady is wise to point out just how difficult a task that would be.

Ms. JACKSON LEE. I hope not. Thank you.

Mr. SHERMAN. The gentleman from New York is recognized for 5 minutes.

Mr. ENGEL. Thank you. Thank you very much.

Gentlemen, I know there has been some talk here about the National Intelligence Estimate which was issued in November of last year, which I am told blind-sighted the administration and blind-sighted many of us, including myself.

I wonder if we could revisit it. The estimate was essentially that Iran has suspended its moves in terms of making nuclear weapons, when, in reality, it only suspended one thing and continues to do at least two others and many, many more. Some people have said that the National Intelligence Estimate's report has resulted in the unfreezing of certain deals involving Iran's petroleum sector. Has it finalized over the 5 months since the estimate?

Mr. FELTMAN. No, Congressman Engel, it has not. The National Intelligence Estimate required us to do a lot of consultations with allies, with the U. N., with the IAEA, et cetera. But the basic issue, a lack of confidence in what Iran is doing, is clear in the NIE. As we were talking about earlier, the NIE made clear that there was in fact a weaponization program that Iran was carrying out and is perhaps carrying out again. It can restart at any time. Iran has never come clean with this sort of information.

So this is what we have discussed with other concerned countries, entities in the international community, is the fact that, until Iran comes clean, until Iran allows the IAEA to verify, inspect all claims, all past activity, we have no confidence in what they are saying.

Mr. ENGEL. Let me say personally I think that the National Intelligence Estimate was an outrage, quite frankly. I think that it led people who want to continue to have their head in the sand vis-à-vis Iran, to bolster that view. I just think it was an outrage.

Let me mention one other thing when we talk about the nuclear program with Iran. When I think of Iran, not only do I think of their attempt to get nuclear weapons, but I also think of their support for terrorism. I believe that they are the leading supporter of terrorism around the world, and for many years, the State Department has named Iran not only as the world's leading state sponsor of terror but as the "central bank for terrorism."

Can you tell us what is the state of Iran's support for international terrorism today, in general, and specifically for Hamas and Hezbollah?

Mr. FELTMAN. I would stand by those descriptions of Iran. It is difficult to find any place where Iran's influence, regionally or internationally, is constructive. Iran is supporting Hamas, undermining the prospects for Israeli-Palestinian peace. Iran is sup-

porting Hezbollah, something that I saw every day for 3½ years as Ambassador to Lebanon.

Iran is supporting special groups in Iraq fighting against coalition forces against the Iraqi Government. Iran is using its Quds force to transfer weapons to Taliban, transfer weapons into Afghanistan, killing NATO troops. Iran is still the major, the number one state sponsor of terrorism in the world.

Mr. ENGEL. Mr. Glaser.

Mr. GLASER. I certainly associate myself completely with the remarks of the Ambassador. Iran provides financial material support to Hamas, to Hezbollah, to the Palestinian Islamic Jihad, to other Palestinian terrorist groups, to Taliban. We at the Treasury Department have designated Bank Saderat, which is an Iranian bank, for facilitating that type of activity. We have designated the Quds force for its participation in that type of activity.

So I think you are exactly right, Congressman. I think that Iran presents a threat to the international community on many, many levels. The nuclear issue is one issue. Terrorism is certainly another one.

Mr. ENGEL. Thank you.

I see my time is up, Mr. Chairman. Thank you.

Mr. SHERMAN. I thank the gentleman from New York.

I want to thank our witnesses. The State Department selected you for your courage and your high tolerance for pain. They sent you here to defend a feckless policy that you did not choose, but have had to defend. I look forward to you getting us the answers to the questions for the record as promptly as you can. I am particularly anxious to get that list of occasions in which multinational corporations have been seriously inconvenienced and have lost significant profit opportunities, as a result of an action taken voluntarily by the Bush administration.

With that, our hearing is concluded.

[Whereupon, at 3:37 p.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE GENE GREEN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TEXAS

I would like to thank both of our Chairmen for holding this hearing today and I welcome our witnesses.

Iran presents a major problem for the United States on a number of levels.

Just last week, General Petraeus testified before this committee that Iran continues to support opposition groups in Iraq with money and equipment.

Its overt nuclear ambitions, its interference in the Israeli-Arab peace process, and its support for Hezbollah—which is second only to Al Qaeda to the number of American lives it has claimed—as well as Hamas and other terrorist organizations all present challenges to stability in the region.

We must use our economic leverage, among other tools, to address this problem, but I am interested in how our witnesses suggest we move forward.

Iran regularly rejects the impact of economic sanctions and in December of 2007, the Government Accountability Office published a report stating the extent of the impact of U.S. sanctions on Iran is “difficult to determine.”

In addition, some analysts claim that Iran is able to cushion any economic impact that these sanctions would have with its oil earnings as the world's fourth largest oil producer.

While Western firms have shown increasing reluctance to invest or expand operations in Iran, Asian companies including from China have been signing up for energy projects.

Iran poses serious problems to stability in the region; however, I do not believe military action against Iran is in our interest.

We must work with our international allies and the UN Security Council to ensure Iran's nuclear program is permanently shut down.

The U.N. Security Council's decision to impose a third round of sanctions on Iran was an important step as the International Atomic Energy Agency reported that Iran had conducted sophisticated research on technologies needed to build and deliver a nuclear weapon.

While passage of the third U.N. resolution is certainly important, Tehran continues to defy earlier Security Council resolutions demanding that it suspend its enrichment of uranium.

Therefore, I look forward to the testimony from our witnesses and their insight on how we move forward on this issue, and again, I thank the Chairmen for holding this hearing.

Thank you.

PREPARED STATEMENT OF THE HONORABLE SHEILA JACKSON LEE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman, for calling today's important hearing. Even as we remain engaged in a war in Iraq to which there is no military solution, this Administration has begun beating the drum for war with Iran. Let me thank our two distinguished witnesses: the Honorable Jeffrey Feltman, Principle Deputy Assistant Secretary, Bureau for Near Eastern Affairs, U.S. Department of State; and Mr. Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of Treasury. I look forward to your informative testimony.

I certainly believe that the current state of affairs in Iran, and specifically those issues relating to U.S. sanctions on Iran and the security of the region, are ex-

tremely important and in desperate need of discussion. As a Member of Congress, I find Iran's support of terrorist organizations, pursuit of nuclear weapons, and dismal human rights record to be extremely worrisome. However, I am also concerned by what appears to be movement by this Administration toward yet another war in the Gulf region, without having first exhausted diplomatic means of addressing any conflicts.

Mr. Chairman, I believe that using a military strike against Iran would be a colossal error. As a nation, we are still paying an unacceptably high price for this Administration's ill-advised and ill-executed invasion of Iraq in March 2003. In 2002, when I voted against the Joint Resolution to Authorize the Use of United States Armed Forces Against Iraq, I did so because I believed that this would be a war without end. I believed this resolution would trap us in a conflict that, like the Vietnam War, would consume American resources and lives without tangible yield. Unfortunately for the people of both this country and Iraq, this has proven true.

Even as our troops are caught in the midst of instability and civil war in Iraq, the President has begun the march to war with Iran. We cannot compound the mistakes of the Iraq war with the even bigger mistake of opening up a second military conflict in the Middle East. And yet, the Administration has begun to set the stage for a U.S. attack on Iranian military or nuclear facilities by issuing strong statements about Iran's intervention in Iraq, and using inflammatory rhetoric against Iran in a similar fashion to the run-up to the Iraq war.

In recent weeks, the Administration has increasingly cited negative behavior of the Iranian regime. Despite contrary findings by the National Intelligence Estimate (NIE), Bush has increasingly stated that Iran is building nuclear weapons. The December 2007 NIE indicated that Iran had halted its nuclear weapons program in 2003; however, the Administration has continued to base its claims that Iran is a major and imminent national security challenge to the United States on Iran's nuclear intentions. The Administration has also cited Iran as a cause of instability in Iraq, and has argued that Iran is killing U.S. soldiers and supplying weapons, training, and funding.

Mr. Chairman, economic and diplomatic means have not yet been fully pursued. While a variety of international, multilateral, and unilateral sanctions have been applied, I believe we still have a range of options. I was proud to support H.R. 1400, the Iran Counter-Proliferation Act of 2007, which was introduced by our late colleague Congressman Lantos and passed by the House in November. This legislation encourages the international community to adopt tighter sanctions against Iran, and would expand the types of foreign entities that could be sanctioned by the United States for dealing with Iran. I would welcome any discussion by the witnesses about the range of options, both diplomatic and economic, that are still available to the United States.

I have long been an advocate of a free, independent, and democratic Iran. I believe in an Iran that holds free elections, follows the rule of law, and is home to a vibrant civil society; an Iran that is a responsible member of the region and the international community, particularly with respect to the proliferation of nuclear weapons. An Iran that, unfortunately, we do not see today.

The only effective way to achieve lasting peace and prosperity in the region, along with bringing about reforms in Iran's polity, is to assist the Iranian people in their quest to achieve political, social, and religious liberty. Every government can be judged with the way in which it treats its ethnic and religious minorities, and the current Iranian government gets a failing grade for its treatment of its many and diverse minorities.

The controversy surrounding Iran's procurement of nuclear energy is cause for great concern; however, the administration's avoidance of any and all diplomatic relations with Iran is cause for greater alarm. Moreover, the current rhetoric from the Bush Administration regarding war with Iran is both counter productive and highly inflammatory. While full diplomatic, political, and economic relations between the U.S. and Iran cannot be normalized unless and until enforceable safeguards are put in place to prevent the weaponization of Iran's nuclear program, these policy objectives should not constitute pre-conditions for any diplomatic dialogue.

Establishing a diplomatic dialogue with the Government of Iran and deepening relationships with the Iranian people would help foster greater understanding between the people of Iran and the people of the United States and would enhance the stability the security of the Persian Gulf region. We must recognize that the real power in Iran, right now, is held by the mullahs. I believe we should be looking to engaging in negotiation with the religious leadership of Iran, from a position of strength. Doing so would reduce of the threat of the proliferation or use of nuclear weapons in the region, while advancing other U.S. foreign policy objectives in the region. The significance of establishing and sustaining diplomatic relations with

Iran cannot be over-emphasized. Avoidance and military intervention cannot be the means through which we resolve this looming crisis.

Mr. Chairman, Middle East experts have repeatedly stated that a U.S. attack on Iran would have disastrous consequences. Among possible outcomes, many experts agree, would be an Iranian counter-attack on U.S. and Israeli interests in the region or throughout the world. Such an attack could also lead to a greater Middle East War, and would undoubtedly bring with it a greater loss of life and financial burden.

Mr. Chairman, now is the time that we need to be looking to ending one Middle East conflict, not to beginning another. We need to work to rebuild our standing in the international community, not to raise further enmity in the Middle East and beyond by attacking another nation.

Thank you, Mr. Chairman. I yield back the balance of my time.

